Canadian Pacific Limited

1989
Annual
Report

Canadian Pacific Limited, directly and through subsidiaries and associated companies, operates principally in transportation and waste services, natural resource development, real estate, hotel operations, telecommunications and manufacturing in Canada and internationally.

Contents

1990 Annual and Special Meeting

The Annual and Special Meeting of Shareholders is to be held on Wednesday, May 2, 1990, at Le Château Champlain, Place du Canada, Montreal, Quebec, at eleven a.m., Eastern Daylight Saving Time.

Highlights

		1989	1988	1987
		(dollars in millions, except amounts per share)		
Income Items	Revenues from continuing operations	$ 11,020.2	$ 10,926.4	$ 10,336.2
	Income from continuing operations			
	Transportation and Waste Services	$ 110.1	$ 213.3	$ 218.3
	Energy	139.2	122.5	158.7
	Forest Products	175.4	259.6	170.0
	Real Estate and Hotels	160.8	102.3	10.2
	Telecommunications and Manufacturing	79.1	(13.8)	(115.5)
		664.6	683.9	441.7
	Discontinued operations	80.6	136.2	384.6
	Net income	$ 745.2	$ 820.1	$ 826.3
Per Ordinary Share	Income from continuing operations	$ 2.09	$ 2.21	$ 1.47
	Net income	$ 2.35	$ 2.65	$ 2.75
	Dividends	$ 0.84	$ 0.68	$ 0.54
	Market price – High	$ 28 5/8	$ 24 7/8	$ 30 1/4
	(Toronto Stock – Low	$ 21 3/8	$ 19 1/2	$ 17 1/4
	Exchange) – Close	$ 25 3/4	$ 22	$ 20 5/8
	Shareholders' equity	$ 24.46	$ 23.00	$ 21.20
Rates of Return	Average shareholders' equity	9.9%	11.9%	13.6%
	Average capital employed (operating)	9.1%	11.2%	11.1%
Financial Condition	Cash from operations	$ 1,138.5	$ 1,611.7	$ 2,126.9
	Capital expenditures and real estate investments	$ 1,640.8	$ 1,863.9	$ 1,254.7
	Total assets	$ 19,048.3	$ 17,650.8	$ 18,000.7
	Debt:equity	33:67	32:68	38:62
Ordinary Share Capital	Number of shares outstanding (in millions)			
	– At year end	318.2	316.9	302.8
	– Average for the year	317.3	309.1	300.5
	Number of shareholders at year end	66,919	69,136	69,016
Number of Employees	Average for the year	75,600	76,400	85,400

To the Shareholders

1989 was a year of major initiatives to add value for shareholders and mould Canadian Pacific into a stronger focused group of leading businesses. The year saw further expansion through acquisitions and the upgrading of core operations; over the past three years some $7 billion has been expended in these areas. The two major developments in the year were the announcement of the distribution of 80% of Marathon Realty to Canadian Pacific's Ordinary shareholders and the formation of a strategic alliance with Rogers Communications Inc. in the fast growing telecommunications business.

Core Businesses

In the established core businesses additional measures were taken to strengthen market positions, expand resource bases and seize opportunities for growth.

Early in 1990 CP Limited acquired, through a tender offer, essentially all the shares of Soo Line Corporation that it did not already own. Soo Line will have a closer working relationship with CP Rail, thereby permitting both railways to take advantage of increasing north-south traffic flows in the Canada-U.S. free trade environment, and its newly strengthened executive team is in the process of implementing a comprehensive business plan aimed at returning Soo Line to sustained profitability and realizing the inherent synergies between the two railways.

In another active year of exploration and development, PanCanadian Petroleum purchased additional oil and gas interests in Alberta, and was the leading operator in Canada as measured by footage drilled.

Fording Coal's Genesee joint venture to supply coal to Edmonton Power began commercial operations during 1989, and negotiations are also currently under way on a contract for the supply of electricity to B.C. Hydro from a power plant to be constructed at the Fording River mine site.

Canadian Pacific Forest Products bolstered its competitive position with the completion on schedule in 1989 of the construction of two joint venture newsprint mills located at Usk, Washington and Gold River, British Columbia, adding 440,000 tonnes of new capacity, and the installation of a new 175,000-tonne white paper machine at Dryden, Ontario. CP Forest Products also continued an extensive modernization program at a number of its mills and has recently announced plans to use recycled newsprint at two of its facilities.

Canadian Pacific Hotels, the owner of Canada's premier heritage landmark hotels and resorts, continued its extensive restoration and upgrading program. The company also broadened its market reach in 1989 when it opened the Chateau Whistler in British Columbia and assumed management of the newly built SkyDome Hotel in Toronto, while early in 1990 it began to manage a resort hotel in Huntsville, Ontario.

During the past year the Company participated in two equity issues by Laidlaw Inc., thereby raising its stake in Laidlaw's total common equity from 12% to 20%. Laidlaw continued its active expansion program with the purchase of a number of passenger and waste service businesses, including Tricil Limited, Canada's largest chemical waste service company, and by acquiring a significant interest in ADT Limited, a major Bermuda-based corporation in two non-cyclical businesses: electronic security services and vehicle auctions.

Distribution of Interest in Marathon Realty

The establishment of Marathon Realty as a public company is planned through the distribution of an 80% interest in Marathon to CP Limited's Ordinary shareholders. CP Limited is retaining a 20% interest and will continue to work closely with Marathon towards full development of its real estate holdings.

Although Canadian Pacific shareholders benefited from increased share prices and higher dividends in recent years, CP Limited shares continue to trade at a significant discount relative to the estimated value of the underlying assets.

It is believed that a distribution to shareholders of a substantial interest in Marathon will narrow the discount by accomplishing two important objectives. First, it will establish a public market value for Marathon Realty. Second, it will permit shareholders to receive directly a significant portion of the value that is currently not reflected in CP Limited's share price.

Marathon will become an increasingly significant player in the real estate development markets in North America and will provide an attractive investment vehicle for Canadian Pacific shareholders.

Shareholder approval of the distribution will be sought at the Company's annual meeting to be held on May 2, 1990 and full details of the proposed plan are contained in the Company's Proxy Statement.

Telecommunications
In 1989 Canadian Pacific entered into a new partnership by selling a 40% interest in CNCP Telecommunications to Rogers Communications. This combination of two of North America's premier companies will provide the entrepreneurship and financial strength necessary to develop CNCP into the second major force in the Canadian telecommunications industry.

Shareholder Protection Rights Plan
In December Canadian Pacific also adopted a Shareholder Protection Rights Plan designed to ensure that all shareholders receive full and fair value for their shares in the event of a take-over bid. This Plan, which is also described in the Company's Proxy Statement, must be confirmed by a majority of the holders of the voting shares represented at the Company's forthcoming annual meeting in May.

Divestitures
The process of focusing on key business activities continued in 1989 with the disposal of substantially all the remaining Bulk Shipping operations and the sale of Syracuse China Corporation, a wholly-owned U.S. subsidiary. In addition, AMCA sold its Giddings & Lewis division, and CP Hotels disposed of its leased properties in West Germany.

Financial Performance
The Company's 1989 financial results were somewhat below expectations. Lower railway freight traffic, the strengthened Canadian dollar and weak newsprint markets were the major reasons for a decline in the Company's net income from $820.1 million, or $2.65 per Ordinary share, in 1988 to $745.2 million, or $2.35 per share, in 1989.

The 1989 results also reflect special charges taken by Soo Line, offset by certain non-recurring gains elsewhere. Income from Energy, Real Estate and Hotels, and AMCA showed improvement, and the Company benefited from a full year of earnings from its investment in Laidlaw.

Details of the Company's performance are provided in the Review of Operations and Financial Review sections beginning on page 10.

Outlook
Forecasts for 1990 indicate further slowing in the economies of Canada and the United States, with some possibility of a recession, leading to more intense competitive pressures on businesses generally. In Forest Products, these pressures will be exacerbated by over-supply conditions for newsprint, a weakening demand for paperboard and packaging products, and exposure to foreign exchange rate fluctuations.

World oil markets are currently strong, leading to an improved outlook for PanCanadian Petroleum. North American gas markets should remain highly competitive in 1990.

CP Rail anticipates a marked recovery in freight traffic compared with 1989, when developments including the previous year's Prairie drought adversely affected traffic volumes.

In the longer term Canadian Pacific is uniquely positioned to provide sustained profitable growth for shareholders in the 1990's. The Company has the management capabilities, the financial capacity and the asset base to support both internal growth and strategic acquisitions in core businesses in Canada, the United States and abroad.

Conclusion
The Directors value, and wish to acknowledge, the dedication and hard work of the Company's employees. Their continued commitment is essential in meeting the challenges that lie ahead.

Chairman, President and Chief Executive Officer

Montreal, March 12, 1990

Our Concerns and Commitments

In last year's Annual Report an article entitled "Building on Our Strengths" covered Canadian Pacific's philosophy, goals and strategies for the future, with the primary focus on the Company's basic commitment to enhance value for shareholders.

While the feature this year again highlights the Company's financial commitment, it also stresses other concerns and responsibilities, particularly in respect of the environment and the community.

Higher Returns

Canadian Pacific's actions in the latter half of the eighties refute the "conservative" description so often applied to the Company in the past. The strategic initiatives taken under the restructuring program, launched in 1985, have refocused the Company on a streamlined portfolio of core businesses. They have also resulted in the strengthening of ongoing businesses, dramatically reduced debt levels, a healthier mix of growth and mature businesses, and a lean, effective organizational structure. Management has set a new standard of returns and is determined to deliver quality earnings to shareholders.

While much progress has been made, more remains to be accomplished. As it enters the 1990's, the Company will continue to rationalize its asset mix focusing on those businesses with inherent competitive advantages, while maintaining financial strength both at the parent and subsidiary company level. Leadership positions will be reinforced in core businesses, synergies will be exploited so as to ensure that value is added as a consequence of being part of the Canadian Pacific family, and new strategies will be pursued as opportunities arise, not only in Canada but also in the United States and abroad.

The Environment

Global economic growth has brought in its wake undesirable side-effects. Ozone depletion, global warming, water and soil contamination, deforestation and waste disposal all pose serious threats to the earth's environment. As with a growing number of businesses today, Canadian Pacific and its people are committed to the protection of the environment.

While environmental programs are being undertaken throughout the Canadian Pacific group, some operations because of size and nature of business have a more substantial impact than others.

CP Rail, for example, is continually looking for solutions to environmental issues. One of its most important responsibilities is in the handling of dangerous commodities where safety standards are constantly being monitored and improved. During construction of the large Rogers Pass project, CP Rail's land reclamation program to minimize disturbance to the natural surroundings was so successful that Parks Canada is using the program as a model for other projects within Canada's national parks. CP Rail is also involved in the development of effective weed control on its tracks using steam as an alternative to conventional herbicides.

CP Forest Products, which manages approximately 10 million hectares of forests in New Brunswick, Quebec, Ontario and British Columbia, has a long-standing commitment to the responsible harvesting and renewal of forests, and is involved in increasing the public's understanding of its forestry practices. Collaborating with provincial forestry ministries, the company works on an ongoing basis to determine the extent and nature of its harvesting programs and reforestation responsibilities in each province. In 1989 alone, the company planted over 32 million seedlings across Canada to complement naturally occurring regeneration. The company's forestry centres are involved in year-round silvicultural research which includes the development of genetically superior seeds for faster growth and better quality trees. As detailed in the Review of Operations on page 22, CP Forest Products has embarked on a four-year capital program designed specifically to protect the environment through the reduction of dioxins in its products to non-detectable levels and the installation of a state-of-the-art effluent treatment system to eliminate the discharge of harmful substances into the water. The company will also construct facilities to produce recycled-content newsprint from old newspapers and magazines to be supplied under a contract with Laidlaw. We will be the leader in North America in this initiative.

Laidlaw's operating philosophies include a commitment to developing environmentally sound and economically feasible solutions to waste management problems. Laidlaw was one of the first North American companies to establish a residential recycling program, which today covers over half a million homes. Laidlaw is working closely with industry to identify and employ practical new ideas for recovering and reusing plastic, metal and paper products. During the past year the company began using landfill methane gas, a by-product of biologically decomposed solid waste, as a source of energy to drive a steam turbine in a new plant, from which electricity is being sold to utilities. The company is also developing other alternatives for the disposal and secondary use of solid wastes, such as large-scale natural composting.

The pursuit of success in the world's increasingly competitive business climate and concern for the environment do not have to be opposing forces. Environmental considerations will continue to play an essential role in the operation of every business in the Canadian Pacific group.

The Community

Charitable donations represent an important community investment and Canadian Pacific is one of the largest contributors in Canada.

The Company's donations program is national in scope and provides financial support to hundreds of health and welfare services, hospitals, educational institutions and programs, youth and recreation organizations and community projects located in areas of Canada where Canadian Pacific has operations and employees. Particular emphasis is directed to education, hospitals and welfare.

Through the 1989 donations program, the Company provided funding for 25 health care facilities and 28 educational institutions to support the construction of new buildings, renovation of old buildings and the purchase of state-of-the-art equipment. In addition, financial support was given to numerous health organizations that not only investigate the cause and cure of disabling and terminal diseases, but also provide patient care services to Canadians. Donations also went to 55 United Way/Centraide campaigns.

In 1989, Canadian Pacific supported three innovative education programs for young Canadians. Two of these programs were initiated by the Canadian Foundation for Economic Education with the first being the sponsorship, in co-operation with the Economic Council of Canada, of a publication entitled "Economic Adjustments". This publication will be used in most high school and college classrooms to provide a layman's description of the anticipated impact on Canadian businesses of the Free Trade Agreement.

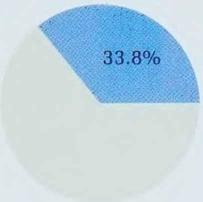
The second program is a series of six videos which deal with all aspects of entrepreneurship. These videos have been produced in both official languages and are being used in Canadian high school and community college classrooms.

The third program is under the sponsorship of the Canadian Association of Chiefs of Police and is designed to provide Canadian school children with easy-to-understand facts about drugs and drug abuse. This program comprises a three-part video series written for Grades 2 through 9 and will be presented by a uniformed police officer who will work in the classroom with the teacher to promote a dialogue with school children on drugs and drug abuse. The accompanying teachers' guides for the entire program were sponsored by Canadian Pacific.

Canadian Pacific is also one of several sponsors of the national IMAGINE campaign initiated by the Canadian Centre for Philanthropy. The purpose of this campaign is to encourage Canadian businesses and individuals to increase their charitable donations of both time and money. In the interests of Canadian Pacific's employees, shareholders and the public, the Company has committed to increase its financial support to worthy Canadian charities that address important community needs.

Canadian Pacific in Profile

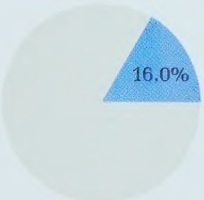
Transportation and Waste Services



(in millions)	1989	1988
Revenues	**$3,897.4**	$4,166.9
Net Income after Minority Interest	**$ 110.1**	$ 213.3

	Percentage Ownership
CP Rail	100%
Soo Line Corporation	55.8%*
CP Ships	100%
CP Trucks	100%
Laidlaw Inc.	20.0% (47.2% voting)

Energy



(in millions)	1989	1988
Revenues	**$1,143.7**	$1,027.3
Net Income after Minority Interest	**$ 139.2**	$ 122.5

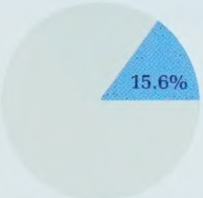
	Percentage Ownership
PanCanadian Petroleum Limited	87.1%
Fording Coal Limited	100%

*As of year-end 1989

Sector assets as a percentage of total assets at December 31, 1989

Employees 1989	1988	Products/services/markets/locations	Industry Position
23,500	24,100	Provides freight rail and intermodal transportation over a 13,800-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads. Head Office: Montreal. Business Unit Offices: Toronto and Vancouver.	Seventh largest railway in North America.
4,600	4,800	Provides freight rail service over 5,800 miles of line in 12 midwestern states. Head Office: Minneapolis, Minnesota.	Tenth largest rail system in the United States.
700	700	Centennial Shipping Limited holds 57% of Canada Maritime Limited, which provides container and break-bulk services involving seven vessels between Montreal, Northern Europe and the Mediterranean. Head Office: Hamilton, Bermuda.	Although the North Atlantic trade is highly competitive, well positioned in Montreal niche market.
6,400	6,400	Canadian Pacific Express & Transport Ltd. offers a full range of road transport services, including less-than-truck-load, parcel delivery, specialized bulk systems and truck-load throughout Canada and the United States. More than 200 terminal locations in Canada and 7 in the eastern and midwestern United States. Head Office: Toronto.	Well positioned in industry with extensive geographic coverage.
32,200	29,600	Provides passenger services, including school bus transportation, and solid and chemical waste services, and has a significant interest in ADT Limited, the world leader in electronic security protection and vehicle auctions in the U.K. and the U.S. School bus operations serve three Canadian provinces and twenty-one states. Waste services are provided in six provinces and twenty-four states. Head Office: Burlington, Ontario.	Largest school bus operator and third largest waste services company in North America.
1,500	1,500	Is engaged in the exploration for and production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Exploration and development activities are primarily in Western Canada, and products are sold mainly in Canada and the U.S. Head Office: Calgary.	One of the largest Canadian-owned producers of crude oil and natural gas.
1,200	1,200	Mines and processes metallurgical and thermal coal for markets including blast furnace steel producers, utilities and other coal consumers world-wide. Mine sites are located in Alberta and southeastern British Columbia. Head Office: Calgary.	The second largest metallurgical coal producer in Canada. Competes primarily with coal suppliers from Canada, Australia and the U.S.

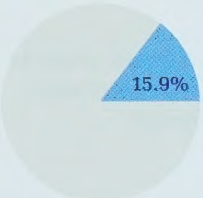
Forest Products



(in millions)	1989	1988
Revenues	$2,879.8	$2,996.7
Net Income after Minority Interest	$ 175.4	$ 259.6

	Percentage Ownership
Canadian Pacific Forest Products Limited	79.7%

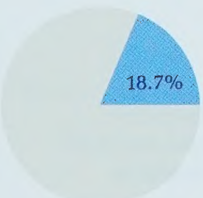
Real Estate and Hotels



(in millions)	1989	1988
Revenues	$ 988.9	$ 845.8
Net Income after Minority Interest	$ 160.8	$ 102.3

	Percentage Ownership
Marathon Realty Company Limited	100%
Canadian Pacific Hotels Corporation	100%

Telecommunications and Manufacturing



(in millions)	1989	1988
Revenues	$2,473.5	$2,207.3
Net Income (loss) after Minority Interest	$ 79.1	$ (13.8)

	Percentage Ownership
CP Telecommunications	60%
AMCA International Limited	55.4%
Processed Minerals Incorporated	100%

Sector assets as a percentage of total assets at December 31,1989

Employees 1989	1988	Products/services/markets/locations	Industry Position
15,000	15,200	Manufactures and sells a wide range of forest products including newsprint, groundwood specialties, pulp, paperboard and packaging materials, white paper, tissue products and lumber. These products are sold in more than 40 countries. Facilities are located in seven Canadian provinces and the State of Washington. Executive Offices: Montreal, Thunder Bay, Ontario and Vancouver.	One of the world's largest producers of newsprint and pulp.
1,500	1,400	Develops, owns and manages income-producing properties including shopping centres, and office, industrial and aviation-related buildings. Also develops major commercial land holdings and business parks. Properties are located across Canada and in the United States. Head Office: Toronto.	One of the largest real estate companies in Canada.
6,200	6,100	Operates 25 hotels with 11,300 rooms, which it owns, leases or manages. Hotels are in city centre and resort locations across Canada. Head Office: Toronto.	Largest hotel operator in Canada.
3,000	3,100	Provides a comprehensive communications service covering a full range of voice, data, text and messaging services across Canada, with connections to the U.S. and overseas. Head Office: Toronto.	Canada's only national facilities-based carrier with fibre optics, digital microwave and satellite network.
11,600	11,300	Serves three broad-based markets: non-residential construction, energy and industrial products. Products and services are marketed on a world-wide basis and include pre-engineered buildings, construction services, compaction equipment, food equipment, aerospace components, petrochemical-related engineering services and steel fabrication/erection. Divisions and subsidiaries are located in the United States, Canada and Europe. Head Office: Charlotte, North Carolina.	A leading world producer of compaction, food processing and packaging equipment.
200	300	Mines and processes wollastonite and tripoli, and chemically modifies wollastonite and other particulates for industrial applications. Head Office: Syracuse, New York.	World's largest producer of wollastonite-based products.

Transportation and Waste Services

CP Rail

Following a reduction of 3% in 1988, CP Rail's traffic volumes declined another 11% in 1989. This was the chief reason for a steady reduction in CP Rail's earnings since 1987.

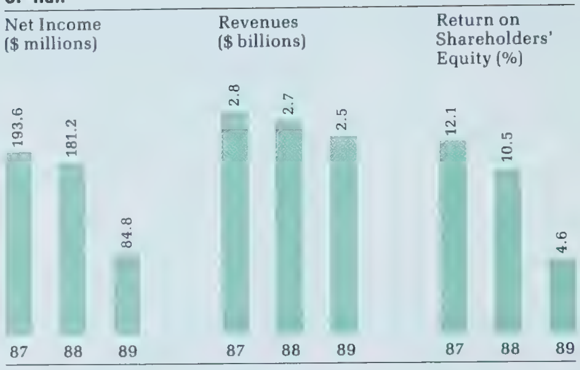
Grain traffic registered the steepest decline over the past two years, reflecting the 1988 Prairie drought, which affected movements through the first half of 1989, followed by a reduction in sales of export wheat especially to the Soviet Union in the latter part of 1989. Shipments of sulphur also dropped significantly in 1989 because of a decline in Canadian exports resulting from disputes in the foreign marketplace. Reduced container shipments arose from the rationalization of Pacific trade route shipping lines serviced by CP Rail and the routing of certain traffic via ports in the U.S. Lumber volumes were down due to competitive factors, and woodpulp traffic was affected by continued weakness in demand. Shipments of coal, one of the major commodities carried by CP Rail, were not much different from 1988. A bright spot was the improving trend toward more automotive and truck volumes in the latter part of 1989, due mainly to the start-up of new plants and the popularity of the models moved by CP Rail.

Although lower traffic levels reduced train operating costs, CP Rail's maintenance expenses were up in 1989 and costs of labour and materials continued to escalate. In its drive to alleviate cost pressures and ensure its competitiveness, CP Rail implemented measures such as increased office automation, night track maintenance, automated car maintenance technology and rationalization of administrative staff. Major steps were also taken to ensure delivery of consistent quality service through improved dock-to-dock train management systems, a strong dedication to "on time all the time" service and increased interaction with customers to meet their needs.

The costing review required every four years under the Western Grain Transportation Act is in progress.

A major issue confronting the grain industry is whether the payment of the "Crow Benefit" should be made directly to producers instead of the railways. CP Rail supports a change in the method of payment, so long as substantial changes are made to other regulations and procedures so the railways can compete effectively in a changed environment.

CP Rail



Since the new National Transportation Act became effective January 1, 1988, Canadian railways have had to cope with increased competition, not only among themselves, but also from trucks as well as U.S. railroads. As well, the Canadian trucking industry is positioned to take additional market share from Canadian railways as a result of increases in maximum vehicle weights and dimensions allowed by provincial governments.

CP Rail's competitive position is hampered further by the disproportionate burden of property and fuel taxation borne by Canadian railways. Property taxes assessed on CP Rail's right of way have increased sharply in recent years compared to trucks which do not pay property taxes on the public highway system, while fuel taxes levied by the federal and provincial governments on locomotive fuel greatly exceed those levied by U.S. federal and state authorities.

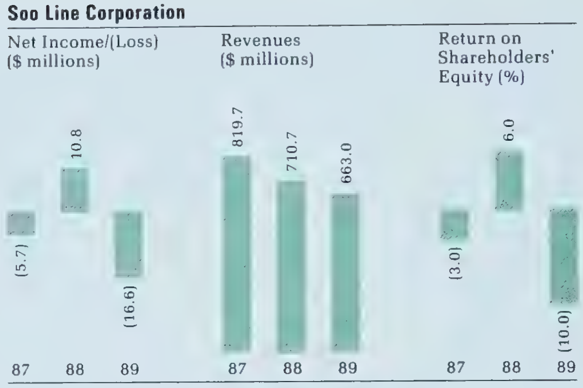
A major development for CP Rail is the recent purchase by CP Limited of virtually all the minority interest in Soo Line Corporation. Complete ownership of Soo Line will permit greater alignment of its operations and routes with CP Rail and the development of more competitive service for Canada-U.S. traffic.

CP Rail's capital expenditures amounted to $207.1 million in 1989, down 46% from 1988 when the Rogers Pass double-track project was completed. Basic renewals and improvements to track and roadway accounted for approximately two-thirds of the 1989 program, with the balance mainly for equipment purchases and commercial facilities.

Labour agreements with operating and other personnel were signed during 1989, covering a three-year period ending December 31, 1991. The contracts provided for wage increases of 4.5% in 1989, 4% in 1990 and 4.5% in 1991, and for partial indexation of pensions.

Westbound CP Rail grain train crosses Kicking Horse River near Golden, B.C.

As a result of the labour settlement reached with the United Transportation Union, CP Rail proceeded with a cost reduction program to eliminate cabooses from train operations replacing them with electronic devices. The devices, located at the end of each train, sense and transmit information on conditions at the rear of the train to the locomotive where it is electronically analyzed and displayed. The program is fully compatible with safe train operation, which remains a fundamental concern for CP Rail, the leading railway in terms of safety among all major railways in North America.



Soo Line Corporation

Pursuant to a tender offer early in 1990, CP Limited acquired essentially all the outstanding shares of Soo Line that it did not already own for U.S. $21.50 per share, at a total cost of approximately U.S. $95 million.

After returning to profitability in 1988, Soo Line incurred a net loss in 1989 as a result of special charges which amounted to $29.8 million, or $16.6 million at CP Limited's ownership level after tax. These charges included primarily a provision for loss on the pending sale of certain rail lines, an employee separation accrual and a charge to increase casualty reserves for outstanding claims.

During 1989 Soo Line reached an agreement to sell its 500-mile Chicago to Kansas City rail line, along with certain other related investments, to Rio Grande Industries (RGI) for U.S. $86 million and has provided for a pre-tax loss of U.S. $22.7 million on the sale. However, three other railroads in the U.S. have notified the Interstate Commerce Commission of their opposition to the proposed transfer of trackage rights to RGI and the granting back of trackage rights to Soo Line on a stretch of track that is jointly owned. Soo Line is currently reassessing the trackage rights issue.

Soo Line's employee separation accrual arose from a comprehensive review of its management and clerical workforce in late 1989. The reduction of 11% in staff size began early in 1990. The increase in casualty reserves was based on continued recent deteriorating trends in payout experience and a reassessment of all outstanding casualty incidents.

At the operating level, Soo Line's income before special charges and credits was slightly less than in 1988, due principally to lower gains on real estate sales. Freight volumes were again lower in 1989, while competitive pricing pressures and commodity mix changes resulted in another year of reduced revenue per revenue ton mile. While being unable to pass through cost inflation fully, Soo Line continues to make progress in improving cost efficiencies, as evidenced in its transportation expense per revenue ton mile which has declined 2% per year in the last two years, and improving revenue ton miles per employee.

1989 was another year of steady growth in coal traffic for Soo Line, but grain traffic was reduced due to the 1988 drought and movements of automotive products declined because of the closure of a customer's plant and competitive traffic losses. Traffic levels of Soo Line's other commodities showed little change.

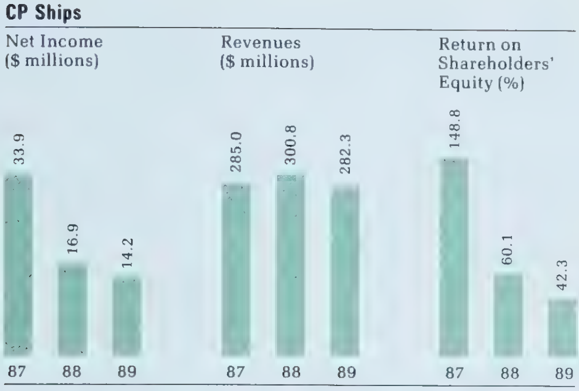
Soo Line has implemented a comprehensive business plan incorporating major restructuring efforts designed to refocus and reposition the company as a specialized carrier. The pending sale of the Kansas City line and the labour expense reduction program are part of this new plan. Other elements include potential future asset sales, concentration on key market segments, an attempt to exercise price leadership where Soo Line has a competitive advantage, and a closer working relationship with CP Rail.

Soo Line is currently negotiating at the local level with its 14 labour organizations to amend compensation, work rules and working conditions including health and welfare benefits.

CP Ships

Income from CP Ships in 1989 was down moderately from 1988, when results included a tax recovery related to prior years' reorganizations.

Reflecting over-capacity conditions in the industry, 1989 witnessed intense competitive pressures for container traffic on the North Atlantic. This led to failed attempts in the industry to



stabilize freight rates and resulted in significant restructuring among certain carriers.

Despite this environment, Canada Maritime Limited, the main division of CP Ships, managed to record another year of growth, as lower volumes and rates on its North Atlantic service, particularly westbound, were offset by favourable foreign currency movements and improvement on its Mediterranean service. Container carryings on the latter service increased very significantly following the departure from the slot charter agreement of the Italian partner in May 1989, thereby permitting Canada Maritime to begin serving that particular market itself.

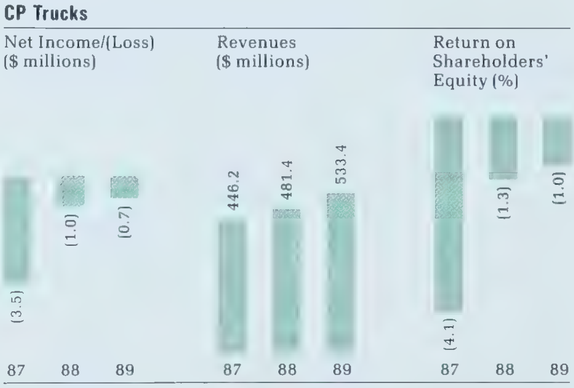
CP Trucks

The past year saw significant developments in the trucking industry. Transport deregulation in Canada, together with the Canada-United States Free Trade Agreement, has been changing the competitive environment of the transportation industry across North America. Major concerns have been the expansion into Canada of U.S. carriers operating from a lower cost base and the consolidation of the Canadian trucking industry, leading to pressures on market shares and rates.

Despite these conditions, CP Trucks ended 1989 with revenues up 11% over 1988 and a smaller loss than was incurred in the two previous years.

The Less-Than-Truckload division returned to profitability in 1989, reflecting mainly an increase in shipments and programs to reduce costs and improve operating efficiencies. To combat the effects of deregulation and rate discounting, emphasis during 1989 was on quality and service programs and increased productivity.

The Specialized Commodities division had a disappointing year as a 23% growth in revenues over 1988 was offset by a 28% increase in expenses. The CANPAR parcel delivery service suffered the largest deterioration, reflecting softening markets and intense competitive pressures. Comprehensive programs were introduced in the latter part of 1989 to improve profitability. Results of the Bulk Systems service were also worse, while at Highland Transport, the truckload service, revenues reached record levels but operating results remained virtually unchanged from 1988. CP America, which is CP Trucks' new truckload venture in the U.S., continued to expand through acquisitions in 1989 adding major new operating centres in Massachusetts, Tennessee and Washington State. CanPac International Freight Services, which is engaged in customs brokerage, international freight forwarding and warehousing, showed improvement in 1989. Because it had neither the critical size nor geographic coverage to be competitive, CP Moving Systems, the household and commercial moving service, was sold early in 1989.



Laidlaw Inc.

Effective January 1, 1990, Laidlaw Transportation Limited changed its name to Laidlaw Inc. in order to reflect more appropriately its present business endeavours.

During 1989 CP Limited participated in two public offerings of Laidlaw's Class B non-voting shares by purchasing 15.2 million shares in March and a further 10.0 million shares in December, thereby raising its interest in Laidlaw's total common equity from 12% to 20%. CP Limited continues to hold 47.2% of Laidlaw's Class A voting shares. In 1989, its first full year of association with CP Limited, Laidlaw contributed $28.4 million to CP Limited's net income.

The 1980's represented a period of significant expansion for Laidlaw as evidenced by its revenues and net income, which grew at average annual compound rates of 27% and 38%, respectively.

Although substantial internal growth occurred, Laidlaw's success was driven by acquisitions. In its fiscal year ended August 31, 1989, Laidlaw acquired 30 waste service operations and 10 passenger service businesses in Canada and the United States, at a total cost of approximately U.S. $300 million. Late in 1989 Laidlaw purchased Tricil Limited, Canada's largest chemical waste service company, for $240 million and in the process moved from being the third to the second largest chemical waste company in North America.

During the past year Laidlaw also acquired major equity positions in companies with head offices outside North America. Laidlaw purchased a 34.2% fully diluted interest in Attwoods plc of the United Kingdom for approximately U.S. $197 million. Attwoods operates waste service companies in the U.K., Germany and the United States and is North America's fifth largest waste service company. Over the past five years Attwoods achieved an average annual compound growth rate in earnings per share of 30%.

Adding a new dimension, Laidlaw acquired a 29% interest in ADT Limited at a total cost of more than U.S. $700 million. ADT, based in Bermuda, is the leader in electronic security protection and vehicle auctions in the U.K. and the U.S. Its earnings per share increased at a compound annual rate of 28% in the last five years. While not strictly related to Laidlaw's core businesses, ADT's operations have similar features in that they are relatively recession-proof service businesses with high barriers to entry.

Laidlaw's aggregate operating margin reached a new high of 17.5% in 1989, attributable mostly to acquisitions in chemical waste services. In the solid waste group, efforts were directed towards margin improvement in waste collection operations and continued capacity expansion of Laidlaw's landfill sites, which now number 41 in North America. In passenger services, operating margins were reduced by severe driver shortage problems in North America, which led to considerably higher training and recruiting costs.

Outlook

CP Rail freight traffic will be up substantially in 1990 as grain shipments return to normal. Revenues should be further enhanced by market growth in international containers and a return of normal sulphur volumes. Lost revenue attributable to government cutbacks in VIA passenger services will have only a small impact on net income due to related cost reductions. CP Rail is stepping up productivity in 1990 to counteract continuing competitive pressures on freight rates and rising input costs, including the newly awarded partial indexation of employee pensions.

CP Rail will better its competitive position against long-haul trucking following construction of the newly announced Toronto Vaughan Intermodal Terminal. This key inland distribution centre, due to be operational in 1991, will also help Canada's ports compete as gateways to world markets.

Soo Line's 1990 railway revenue and traffic levels are expected to equal those in 1989, although coal revenues will decline due to contract rate reductions as a result of competitive pressures. Following an extended period of rate erosion, market conditions should allow Soo Line to obtain business from marketing and service programs as opposed to aggressive price cutting. Substantial rehabilitation and upgrading of track over the next four years will enable the company to market improved service.

The North Atlantic continues to be plagued by overcapacity. Severe competition will dominate the outlook for Canada Maritime's Northern service. The outlook for the Mediterranean trade is more optimistic and Canada Maritime volumes will benefit from a full year of serving the entire Italian market directly.

Along with other Canadian trucking companies, CP Trucks is facing stiffer competition, particularly from U.S.-based carriers, since deregulation. The one known trend that will continue will be the difficulty of increasing rates to cover cost inflation. Despite the difficult operating environment, the company expects an earnings improvement in 1990 based on enhanced productivity and customer service.

Laidlaw's net income will continue to grow strongly through both acquisitions and improved operating margins. Earnings in 1990 will reflect the contributions from Laidlaw's new investments in ADT and Attwoods, and the acquisition of Tricil. The waste services division will benefit from the recent recycling trend in North America and will pursue opportunities in landfill and resource recovery. In passenger services, efforts will be devoted to gaining ground in the lucrative municipal private transit sector and opportunities will be developed for bus drivers to work during the off-season period.

Laidlaw Waste Systems recycling centre in Mississauga, Ont. processes some 23,000 tons of newsprint and other material annually.

Energy

PanCanadian Petroleum Limited

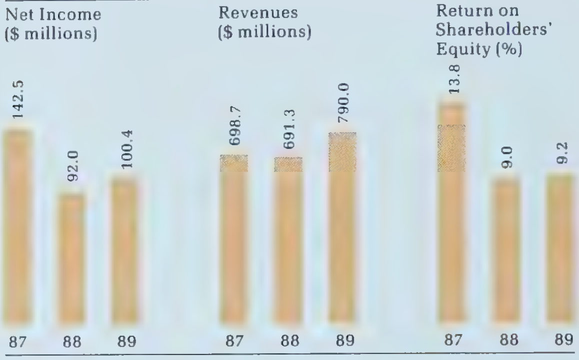
Following a decline in 1988, income from PanCanadian, 87.1% owned, was up 9% in 1989, reflecting an upturn in crude oil prices and the full year impact of property acquisitions made in 1988.

Free world oil demand increased in 1989 for the fourth consecutive year. This, together with disruptions of certain non-OPEC supplies, was sufficient to counterbalance the over-supply from OPEC members who continued to produce in excess of their self-imposed production quotas. Accordingly, the spot price for West Texas Intermediate crude oil in 1989, while continuing to be volatile, was up on average 23% over 1988 following a decline of 17% from 1987. Domestic oil prices responded to the international gains but were tempered by the strengthened Canadian dollar, with the result that the weighted average price received by PanCanadian for conventional crude oil was $18.40 per barrel in 1989, compared with $14.79 in 1988 and $20.96 in 1987.

Increased demand in Canada and the United States allowed sales of Canadian natural gas to rise by approximately 5% in 1989. Despite the improved demand, prices declined further as fierce competition among suppliers persisted. As a result, PanCanadian's weighted average price of gas per thousand cubic feet dropped to $1.42 in 1989 from $1.44 in 1988 and $1.57 in 1987. Prices for propane and butane were generally weak in 1989 as a result of the ongoing world supply surplus, but increased considerably in December due to the widespread cold weather. Methanol prices, which peaked in 1988, declined sharply in 1989 as the world supply surplus reappeared.

In an industry showing reduced activity, PanCanadian was the leading operator in Canada in 1989 in terms of footage drilled; the company operated 288 wells, compared with 316 in 1988. PanCanadian's conventional crude oil production set a new record in 1989 and increased 4% over 1988, reflecting the company's successful programs as well as the contribution from oil properties acquired in the last two years. A 47% rise in the production of synthetic crude oil was attributable to the acquisition in 1988 of an additional 6% interest in the Syncrude joint venture.

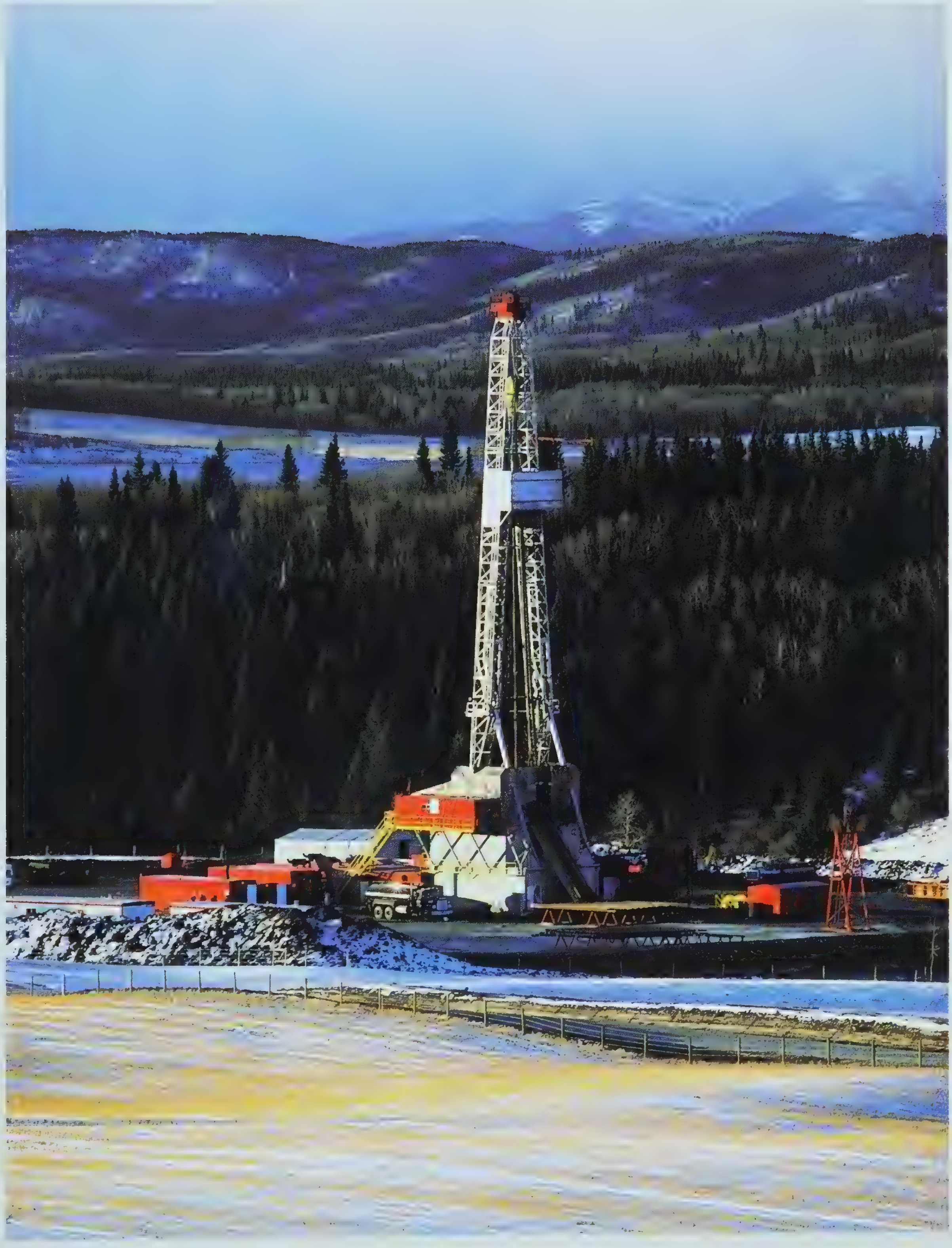
PanCanadian Petroleum Limited



Natural gas production, on the other hand, declined by 5% in response to a reduction in the domestic market share of the company's largest buyer. However, PanCanadian has negotiated a new gas sales contract to begin in late 1990, which provides an opportunity to broaden the company's market base through participation in the California market. Sales of natural gas liquids from field operations and the Empress extraction plants fell by 2% and 6%, respectively, compared to 1988.

Capital expenditures for exploration and development of oil and gas reserves amounted to $268.9 million, compared with $288.0 million in 1988. The major focus of PanCanadian's 1989 activities was again in Alberta where new oil and gas discoveries were made, several major producing fields were extended and delivery capabilities for oil and gas rose. Although it did not achieve its goal of replacing production, 1989 reserve additions replaced 67% of conventional oil and natural gas liquids production and 76% of natural gas production. Consequently, its total proven and probable oil and gas reserves, before deduction of royalties and including synthetic crude oil, amounted to 960.8 million barrels of oil equivalent at year-end 1989, compared to 980.6 million barrels at December 31, 1988.

Since 1988 PanCanadian's exploration efforts have been directed increasingly toward natural gas in line with prospects of improving markets. These efforts were reinforced by oil and gas property acquisitions in 1989 at a cost of $33.7 million. Acquisitions were made in the Westerose, Benjamin Creek and Ghost River regions of Alberta and the Flat Lake area of Saskatchewan, and included associated interests in two gas plants. These acquisitions strengthen existing operations in these areas by complementing ongoing development and increasing reserves.



PanCanadian Petroleum explores for gas reserves in Turner Valley area in Alberta foothills.

Continuing a program begun in 1988, PanCanadian disposed of a number of non-strategic, small producing properties in Canada and the United States in 1989, thus allowing the company to concentrate on areas offering the higher returns.

Fording Coal Limited

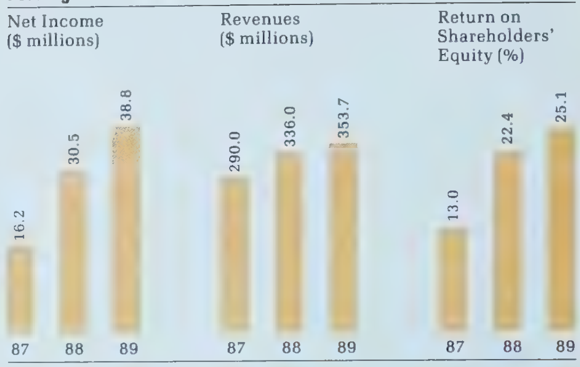
Continued buoyant demand for steel in Europe and the Pacific Rim, together with work stoppages in the coal industry in Australia, the United States and Canada, resulted in a tightening of supply of metallurgical coal and stronger prices in 1989.

These developments have had a favourable impact on Fording Coal, whose revenues increased on average 10% per year over the past two years, while net income was up an average of 55% per year during the same period. Despite a mineworkers strike in 1989, Fording's coal shipments rose to 5.8 million tonnes from 5.7 million tonnes in 1988 and 5.1 million tonnes in 1987. Other positive factors were improved coal selling prices, continued cost restraint and productivity improvement.

In mid-1989, a six-week strike by two union locals of the United Steelworkers of America disrupted Fording's operations in British Columbia. The strike ended with the signing of new contracts which run to May 1991. Negotiations are in progress on the signing of a new collective agreement with Fording's strip miners in its Whitewood operations in Alberta, who have been without a contract since September 30, 1989.

Fording's capital projects in 1989 included completing the development of the Eagle Mountain coal reserves in British Columbia and the commercial start-up in November of the Genesee joint venture with the City of Edmonton to supply coal from a jointly-owned coal mine to a city-owned power plant. A second unit of the power plant is scheduled to be completed in 1993. Fording is also in the process of negotiating a contract for the supply of electricity to B.C. Hydro starting in 1993. If accepted, the $200 million project will involve the construction, beginning in 1990, of a 120 megawatt thermal power plant that will use tailings from the processing plant at the Fording River minesite. The plant would employ the latest technology for emission control. As with the Genesee venture, this project would further diversify Fording away from dependence on metallurgical coal sales to offshore customers.

Fording Coal Limited



Outlook

PanCanadian anticipates that world crude oil markets may continue to be volatile, but prices should gradually increase over time. North American natural gas markets are expected to remain highly competitive in 1990 with prices gradually increasing thereafter as the supply surplus is drawn down. Gas sales could be affected by limitations on pipeline capacity, regulations relating to export approvals, and restrictions relating to new gas plants in Alberta. The company does not anticipate major changes in production volumes in 1990. Planned exploration and development expenditures, which are expected to be financed by funds from operations, will be marginally higher.

For Fording Coal, sales volumes are expected to increase in 1990. Reduced sales into the Japanese market will be offset by an increase in sales to other established coal markets. Internationally, metallurgical coal markets are expected to be affected by a reduced demand for steel. The contract sales prices for coal shipments to the Japanese market for the 1990 coal year have increased U.S. $2.40 per tonne. The coal price increase combined with the higher contribution from its Genesee coal mine operations should enable the company to maintain its net income and cash flow in 1990 at current levels.

Shovel scoops up waste in 30-cubic-yard bucket and loads it into 170-ton truck on Eagle Mountain at Fording River Mine in southeastern British Columbia.

Forest Products

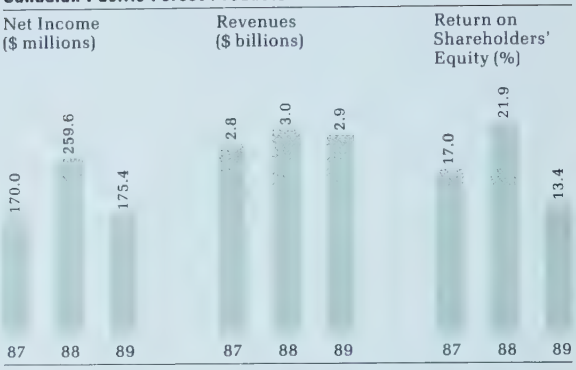
Canadian Pacific Forest Products Limited

Following growth in 1988, revenues and earnings from Canadian Pacific Forest Products (CPFP) fell 4% and 32%, respectively in 1989, reflecting weakening newsprint markets and the strength of the Canadian dollar in relation to the U.S. dollar. The latter was a significant factor in that more than half of CPFP's 1989 sales were in U.S. dollars.

U.S. newsprint consumption remained flat for the second consecutive year in 1989, as newspaper advertising weakened and publishers continued to draw down inventories. Furthermore, increased capacity, slow economic growth and the concentration of publisher ownership in North America resulted in severe price discounting. Consequently, CPFP's newsprint business had a disappointing year. Despite moderate growth in overseas markets, two of the company's four newsprint mills operated at less than capacity and there were extended shutdowns during 1989. CPFP's 1989 newsprint shipments fell 4% from 1988 levels and average selling prices were substantially lower. These factors, together with the higher value of the Canadian dollar, caused operating earnings of the newsprint segment to drop 91%. Late in 1989 construction was completed and operations began at the company's two joint venture newsprint mills in British Columbia and the State of Washington.

Pulp markets experienced another buoyant year with industry shipments high and producers' inventories below normal levels. CPFP's market pulp shipments for the first half of 1989 exceeded the levels of the corresponding period of 1988, but dropped off slightly in the second half in order to meet the requirements of the new white paper machine at Dryden. All CPFP's pulp mills, except La Tuque which experienced mechanical difficulties, ran at full capacity during the year. While prices improved in the North American and overseas markets, earnings on U.S. shipments were adversely affected by the higher value of the Canadian dollar. Notwithstanding lower shipments and the effects of unfavourable exchange, operating earnings of CPFP's pulp segment were up 16% over 1988.

Canadian Pacific Forest Products Limited



Canadian suppliers of linerboard and corrugated medium were faced with lower domestic demand stemming from reduced economic activity, together with higher U.S. imports resulting from lower tariffs under the Free Trade Agreement and the higher value of the Canadian dollar. As a result, CPFP's paperboard volumes and average prices declined in 1989. The softening markets led to three shutdowns at the company's corrugated medium mill in Quebec. In addition, mechanical problems at another mill in Quebec led to lower production volumes and higher operating costs, and linerboard production was temporarily curtailed late in the year in order to reduce inventories.

Following a strong year in 1988, demand for white paper weakened in the first quarter of 1989 with the trend accelerating during the second and third quarters. The weakened demand, along with new capacity entering the marketplace, led to widespread price discounting and machine downtime until the final quarter when there was some improvement. CPFP's state-of-the-art, $175 million second white paper machine at Dryden came on line in June, thereby increasing mill capacity to 285,000 tonnes annually. In conjunction with the new paper machine, the company installed North America's largest cut-to-size sheeter with duplicate labelling, packaging and carton filling lines at Dryden.

Demand for the company's tissue products, marketed by Facelle Company Ltd., was weak at the beginning of 1989, but markets recovered in the latter half of the year resulting in a 6% increase in sales over 1988. Facelle introduced a new line of serviette early in 1989 and market penetration during the year exceeded expectations.

Logging truck carries 100-ton load of 40-foot-long logs to Canadian Pacific Forest Products' Gold River pulp and newsprint complex on Vancouver Island.

Although growth occurred in export lumber markets during 1989, North American markets remained weak through most of the year. Low production levels at the company's three sawmills in British Columbia and Ontario were partially offset by price increases, especially for West Coast lumber to offshore markets.

CPFP has capital expenditures over the next three years for projects under way or approved totalling more than $800 million. The largest single project is the $350 million modernization program at Thunder Bay, which involves the construction of a thermo-mechanical pulp mill to be completed in 1990 and a 240,000 tonne-per-year high speed newsprint machine which is expected to be operational in 1991.

During 1989 the company launched a four-year $145 million capital program aimed specifically at environmental matters. In 1989 these projects included the manufacturing of milk cartons with non-detectable levels of dioxins in the milk and the elimination of chlorophenols from lumber treatments in the company's West Coast sawmills. During 1990, the company's bleached kraft pulp mills in B.C. and Quebec will convert their bleaching processes in order to eliminate detectable levels of dioxins. Construction of a $36 million secondary effluent treatment system is scheduled to begin in 1990 at the Thunder Bay kraft pulp mill. The system, which is expected to be completed in late 1991, will significantly reduce biochemical oxygen demand, toxicity and chlorinated organics from the kraft mill's outflow.

Late in 1989 CPFP established a leading position in the North American recycled-content newsprint business with the announcement that re-pulping and de-inking facilities would be installed at the company's two largest newsprint mills in Gatineau, Quebec and Thunder Bay, Ontario. The new facilities, to be completed in 1991 at a cost of $175 million, will provide an operating synergy between CPFP and Laidlaw Inc., who will exclusively collect used newspapers and magazines for shipment to the two mills.

Outlook

In 1990, CPFP's earnings will be adversely affected by continued excess capacity in the newsprint industry and cyclical market deterioration in paperboard and packaging products. Conversely, northern softwood bleached kraft pulp, the company's second major business segment after newsprint, is expected to sustain most of its current market strength over the near term. In addition, white paper and tissue market conditions should improve. CPFP's earnings will remain vulnerable to currency fluctuations as each one U.S. cent annual change in the value of the Canadian dollar results in a change in net earnings of approximately $15 million. With the exception of British Columbia where labour agreements are in effect until 1991, the majority of the collective agreements for the primary operations and woodlands situated in Quebec, Ontario and New Brunswick are due for renewal in 1990.

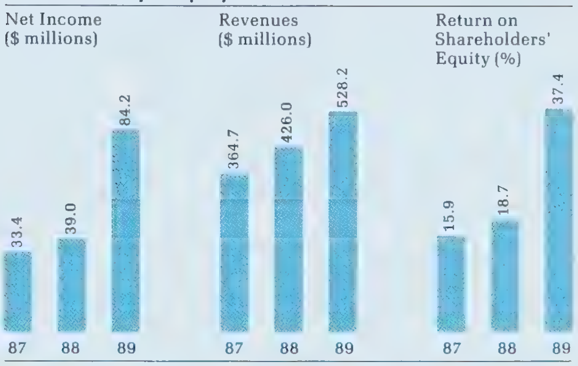
Marathon Realty Company Limited

Marathon Realty had an exceptional year in 1989. Following a period of steady growth, Marathon's revenues in 1989 were up 24% over 1988, cash flow from operations increased 93% and net income more than doubled. The sharply improved results in 1989 reflected continued rental growth from office buildings and shopping centres and, more significantly, gains from land sales including the site for the new Metro Hall in Toronto.

Marathon's Buildings Group comprises approximately 10.9 million square feet of space in 35 buildings in Canada and the U.S., along with 2.3 million square feet of industrial and aviation-related properties in Canada. Leasing results for this group were positive during the year with rental income showing particular improvement in Vancouver, Toronto and Montreal. Overall occupancy levels in office buildings reached 92% and by year end the two newest buildings – Atria North Phase II in North York, Ontario and Marathon Plaza in San Francisco – were 90% and 80% leased, respectively. In view of strengthening markets, it is expected that Marathon Plaza will be fully leased by the end of 1990.

Marathon has under way several major projects in the Buildings Group. In downtown Montreal construction of a 47-storey, 1.0 million square foot office building is continuing on schedule. The building, a joint venture between Marathon and IBM Canada Ltd., is 34% leased so far and scheduled for completion in 1991. Also expected to be completed in 1991 is Waterfront Centre, a combined 755,000 square foot office, hotel and retail project in Vancouver, with the office tower already 45% leased. Marathon is the development manager in charge of construction of Toronto's Metro Hall which commenced in 1989. This is a 27-storey, 750,000 square foot tower scheduled for completion in 1992. Marathon also began work on the first phase of the adjacent Metro Plaza project, which encompasses two 315,000 square foot

Marathon Realty Company Limited



office buildings, a 70,000 square foot retail area and a public park, and on Atria North Phase III, a 320,000 square foot building in North York, Ontario, both of which are slated for completion in 1991. Site work is continuing at Southtown, which will involve the staged development of 6.0 million square feet of office and commercial space and over 2,000 residential units on 35 acres of land south of Toronto's financial district.

In the Shopping Centre Group, Marathon owns or has an interest in 16 shopping centres aggregating 6.4 million square feet in Canada, and 13 centres with 7.2 million square feet in the United States. The Canadian shopping centres benefited from higher participation rentals in 1989 stemming from healthy increases in tenants' sales, particularly in Western Canada and Nova Scotia. Marathon's U.S. shopping centres showed

improvement during the year reflecting increased tenant sales. In addition, Marathon's results benefited from the purchase in 1989 of the 30% interest held by the minority partner in its U.S. shopping centre portfolio.

During the year, a major expansion program continued at a shopping centre in Ottawa and renovations were completed at a shopping centre in Quebec City. In the U.S. two new malls opened during the year in Texas and Oklahoma and pre-planning efforts are under way on a centre to be built in Memphis, Tennessee.

The Land Group comprises strategically located parcels of land in Vancouver, Toronto and Montreal, eight business parks, and almost 3,000 acres of non-strategic commercial land and 140,000 acres of agricultural land. In 1989 the sale of three large parcels of land contributed approximately $90 million in operating profit, while the sale of agricultural lands yielded $12 million in operating profit. Pre-development activity was focused on the Coal Harbour site in Vancouver and on the Toronto and Montreal sites.

Marathon estimates that the aggregate market value of its income properties, both operating and those currently under development, amounted to $2.85 billion at year-end 1989, compared to a book value of $1.9 billion. The estimate, however, does not necessarily reflect the actual amount Marathon would receive on disposal of these properties. In addition, Marathon has a large and valuable land bank with a current value considerably greater than book value, but any estimate of that value would depend on the nature and timing of future development activity or sale.

The planned distribution to shareholders of a major interest in Marathon Realty will enhance values for shareholders by establishing Marathon as a major publicly traded real estate company, which will be valued by the market primarily on the basis of cash flow and underlying property values.

Complete information on Marathon, including financial statements, can be obtained by requesting a copy of the company's 1989 annual report from its Secretary at the address shown on the inside back cover of this report.

Canadian Pacific Hotels Corporation

Continued revenue and income growth, the opening of new hotels and the upgrading and expansion of existing facilities made 1989 another gratifying year for Canadian Pacific Hotels.

Revenues in 1989 exceeded the $400 million mark for the first time, and net income of $34.6 million was more than double the level two years earlier, excluding a 1987 provision for the disposal of leased properties in West Germany. The improved results reflected the acquisition of the nine-property CN Hotels chain in April 1988, increases in room rates, and investment income in 1989.

Operating profit increased significantly in 1989 over 1988 in Western Canada, with very strong performances at the Empress Hotel in Victoria, B.C., Hotel Vancouver and the Banff Springs Hotel. The Royal York Hotel also showed improved operating profit in 1989 as it benefited from room renovations.

The company's goal of improving product quality and the level of service at each of its hotels and resorts was further advanced during the past year. After a six-month closure for a total restoration, the Empress Hotel opened in April, marking the completion of the first major project in the company's $600 million, five-year restoration and renovation program. Other projects continued on schedule during the year on the Chateau Lake Louise, Jasper Park Lodge and Banff Springs

Phases I and II of Atria North office complex in North York, Ont. have 584,000 square feet of leasable space. Phase III, now under construction, will add another 300,000 square feet.

hotels in the Canadian Rockies and on the Royal York Hotel and the Chateau Frontenac in Toronto and Quebec City, respectively, while work commenced on the restoration of Edmonton's historic landmark, the Hotel Macdonald.

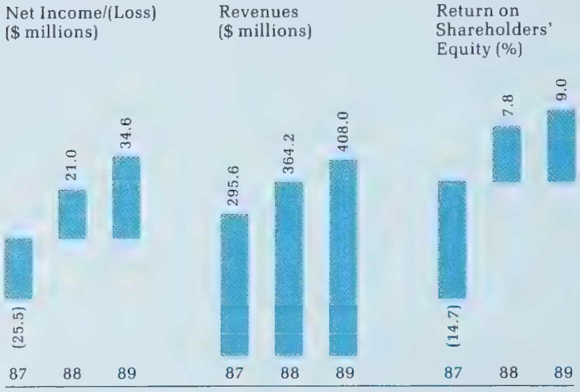
Two new hotels with about 350 rooms each opened in the fall – the SkyDome Hotel, a managed property in Toronto, and the Chateau Whistler in the mountain resort of Whistler, B.C. Early in 1990, CP Hotels began to manage the Deerhurst Inn and Country Club in Huntsville, Ontario. Rationalization involved the disposition of leased hotel properties in West Germany and the termination of a management contract at a hotel near Kelowna, B.C.

CP Hotels & Resorts, the largest hotel chain in Canada, currently operates 25 world-class hotels and resorts with 11,300 rooms. Another 700 rooms will be added in 1991 when CP Hotels completes the restoration of the Hotel Macdonald and begins to manage the hotel being included in Marathon Realty's Waterfront Centre development in Vancouver.

Outlook

After the planned distribution of 80% of the shares of Marathon Realty to Canadian Pacific shareholders, CP Limited's income from Marathon will decline in 1990 reflecting the decrease in ownership. For Marathon Realty itself, although rental operating income is expected to continue to grow, the level of land sales is difficult to predict in the current volatile environment and there can be no assurance that

Canadian Pacific Hotels Corporation



1989 results can be repeated in 1990. Although the North American economies are showing evidence of further slowing, office building markets will remain buoyant in some regions and shopping centres should benefit from continued improvements in the southern United States. More importantly, Marathon is well positioned to grow and prosper. Its goals are to continue the disposition of non-strategic lands to augment income and provide equity for new development, maximize the potential of the strategic land parcels by bringing them to the development phase at the earliest opportunity, and upgrade the quality of the rental portfolio by concentrating on the development of larger projects and the disposition of smaller properties.

Through its multi-year programs of hotel renovations and restorations, human resources planning and development and installation of new information systems, CP Hotels will continue the process of reinforcing its position as a leading hotel chain. In 1990, a new advertising campaign promoting the entire chain in Canada and the U.S. will establish a stronger market identity, and new operating practices will lower costs. In the short term, earnings growth will be modest due to the carrying costs of the heavy capital program.

Chateau Whistler Resort north of Vancouver, B.C. is all-season luxury resort with 343 guest rooms and suites and 14,000 square feet of meeting space.

Telecommunications and Manufacturing

CP Telecommunications

The Canadian telecommunications industry continued to expand in 1989, with particularly rapid growth in demand for facsimile transmission, high speed data and integrated services. CNCP Telecommunications is a participant in all of these markets and in 1989 enjoyed the benefits of this growth. At the same time, a new association was formed, when CP Limited sold a 40% interest in CNCP to Rogers Communications Inc. The sale, which closed in September 1989, has created an alliance that will develop into a viable, major alternative to the monopoly telephone companies.

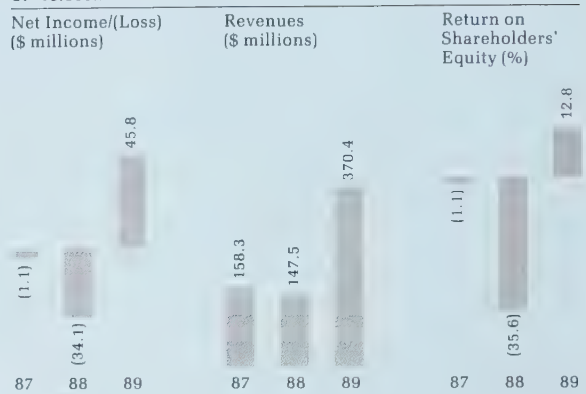
The transaction also resulted in a gain to CP Limited amounting to $54.6 million after tax, which is included in 1989 income from CP Telecommunications of $45.8 million. There was a loss of $34.1 million in 1988 when results included an employee reduction charge and an asset write-down stemming from the transition from analogue to digital technology and the decline in Telex business.

Telecommunication operating results were poor over the past few years, due primarily to reduced demand for Telex and higher costs, particularly for leased facilities. However, for the first time in three years, the overall decline in CNCP's revenues was reversed in 1989, reflecting the introduction of new services in recent years, which have increasingly compensated for the reduction in CNCP's traditional services.

FacsRoute, the facsimile messaging service introduced in 1988, accounted for 40% of the total increase in CNCP's revenues in 1989 as it gradually displaces Telex, whose revenues fell by 39%. Other products enjoying large increases in revenues included voice and data services such as Mach, Private Line data and Broadband, which are increasing in popularity not only because they make use of advanced technology, but they are also cost-effective for users.

A Supreme Court decision in 1989 affirmed the Federal Government's regulatory jurisdiction over the telecommunications industry. Although the Prairie provinces are still exempt on the basis of Crown Corporation immunity, amendments to the Railway Act to remedy this situation are expected in the near future. This will allow CNCP to compete nation-wide in data and private voice networks. CNCP also intends to file shortly an application with the Canadian Radio-television and Telecommunications Commission to compete in the long-distance voice market.

CP Telecommunications



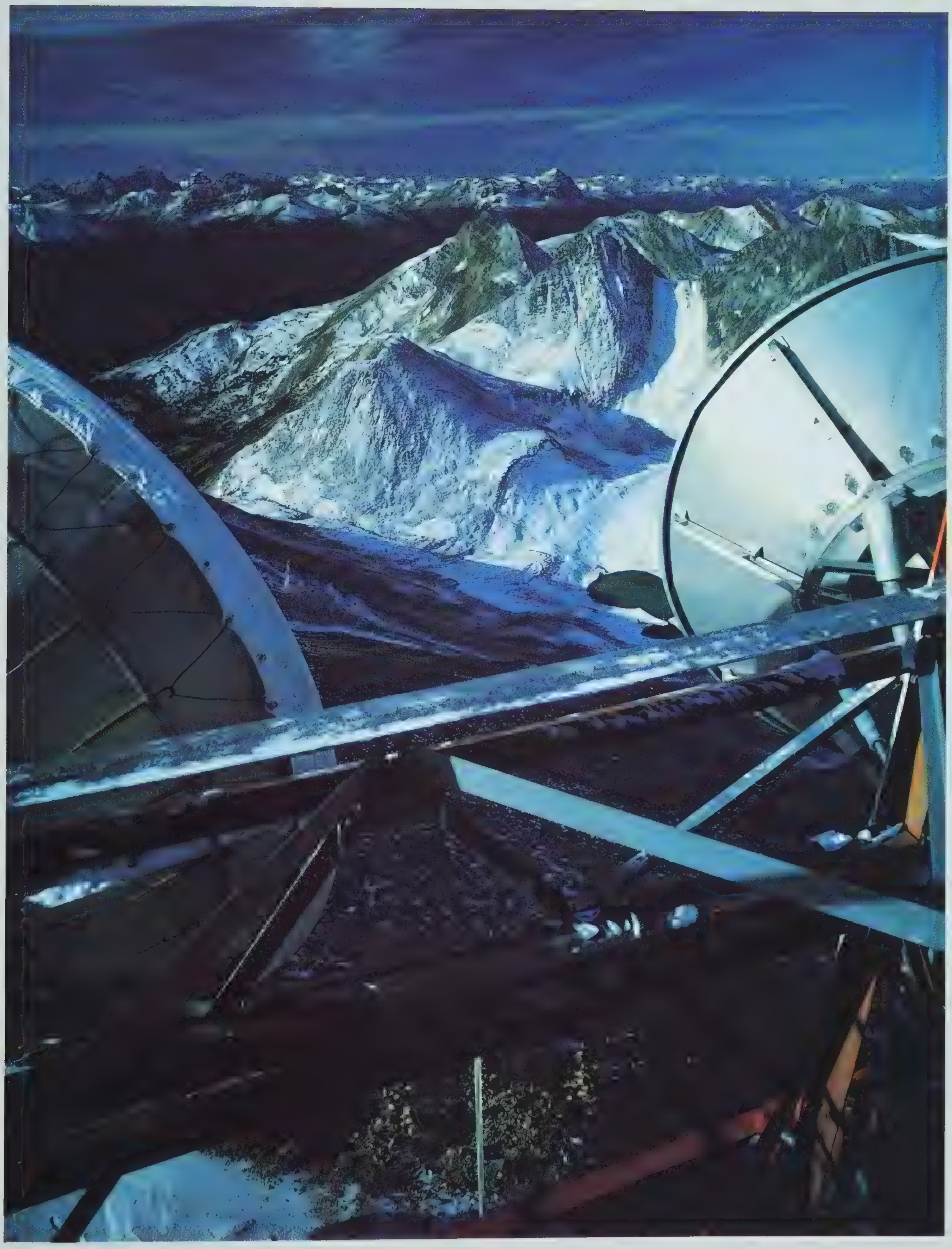
CNCP's recent expansion program has enhanced its coast-to-coast network. The company's digital communications network currently provides operational fibre optic cable, or digital radio systems, which service the major centres from Quebec City to Victoria, B.C. During 1990 construction of digital radio will be completed between Quebec City and Halifax, thereby providing truly transcontinental digital capability. Plans are also under way to increase capacity, initially on the Toronto-to-Edmonton link and next year on the busy Montreal-Windsor corridor, thereby expanding the transmission volume potential by 300%. The section between Toronto and Montreal, the heaviest traffic route, should be provided with a second fibre route sometime in 1990. Digital gateways to the United States will also be expanded in 1990. All these projects are part of CNCP's increased 1990 capital investment program which will position it to play a larger role in serving the growing telecommunications market.

AMCA International Limited

The past year was a profitable one for AMCA. Its operations were rationalized further, earnings were at their highest level and the financial position was improved.

Although a number of smaller businesses were divested, AMCA's major strategic decision in 1989 was to sell its Giddings & Lewis unit. The transaction, which was timely in view of the highly-cyclical nature of the machine tool industry, generated cash for AMCA of approximately U.S. $130 million and a gain of U.S. $25 million after a significant asset write-down in 1987.

The gain in 1989, based on CP Limited's ownership in AMCA of 55.4%, amounted to approximately $16 million and accounted for about half the increase in income from AMCA as compared to 1988. The remainder was attributable to lower



Microwave tower on top of Pyramid Mountain in Jasper National Park is approximately 9,000 feet above sea level and accessible only by private tramway.

interest expenses, together with improved business activity for the second consecutive year.

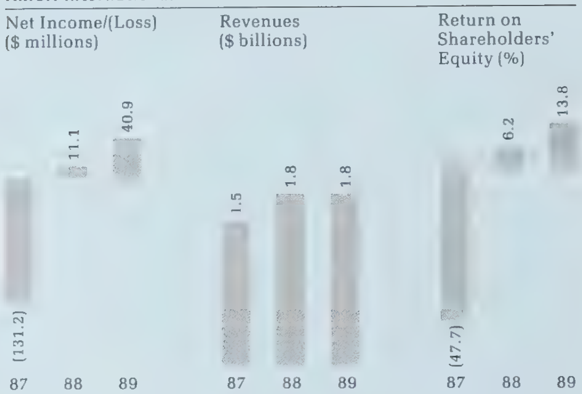
AMCA's core businesses have been regrouped into three segments – Engineering Services, Industrial Products, and Construction Products and Services – to reflect more accurately the general markets served.

Notwithstanding conditions in world energy markets, the Engineering Services segment showed a marked improvement in 1989, with sales up 25% over 1988 and operating profits more than doubled. This achievement was attributable largely to the success of the Litwin companies, which have benefited from increased demand for the construction of petrochemical and chemical plants, particularly in the Soviet Union and developing countries, to produce end-products such as plastics and fibres.

AMCA's Industrial Products segment, consisting of the Compaction Equipment, Food Equipment and Aerospace operations, had revenue growth of 13% over 1988. Operating profits increased 10% as the general industrial markets served by these three businesses showed steady growth in 1989. BOMAG, which is involved in the design, manufacture and sale of soil compaction and sanitary landfill equipment, had an outstanding year, achieving its objectives to increase its global presence and introduce new products. Results of the Food Equipment businesses were better than in 1988, due to strong sales growth in the pumps and carton filler lines. The Aerospace operation also experienced higher sales and profits.

The Construction Products and Services segment, comprised of the Buildings, Construction and Dominion Bridge operations, achieved a 17% increase in sales compared with 1988. Operating profits fell 15% as a result of competitive pressures as well as certain operating problems, particularly in Buildings and Dominion Bridge's Ontario operations. During the year the Buildings division continued to develop new engineering and marketing support systems to improve productivity and approximately 200 new builders were added to the distribution network. Results were disappointing for AMCA's Construction operations in 1989 as the company experienced difficulty in booking several major projects during the first half of the year, and also suffered some residual problems on past projects. Despite a poor performance in Ontario, Dominion Bridge posted a modest improvement because of its Quebec operation. A major accomplishment for Dominion Bridge during the year was the completion of the unique retractable roof on the SkyDome Stadium in Toronto.

AMCA International Limited



AMCA's financial condition was strengthened further in 1989. Higher earnings, together with proceeds from the sales of businesses, enabled AMCA to reduce its debt and preferred share obligations and to reinstate cash dividends to common shareholders after a two-year interruption.

Outlook

Both the Canadian telecommunications market and CNCP are expected to continue to grow in 1990. After turning around in 1989, CNCP's revenues should increase significantly in 1990 as dependence on old services such as telex diminishes. CNCP's capital expenditures will also rise very strongly in 1990. This will increase depreciation and interest costs and restrict earnings growth, but will provide the facilities for revenue growth and improved customer service.

Following its restructuring and recapitalization, and aided by the recovery in North American business capital spending in recent years, AMCA is better situated. However, with markets uncertain in 1990 due to an anticipated further slowing of the economy, AMCA expects only a modest improvement in operating profits mainly due to cost reductions and performance gains rather than sales volume increases. Further reductions in fixed charges are expected reflecting 1989 debt reduction activities and AMCA's improved cash position.

New vibratory tandem roller, BOMAG's most advanced piece of large compaction equipment, works on access road to airport in Everett, Wash.

Financial Review

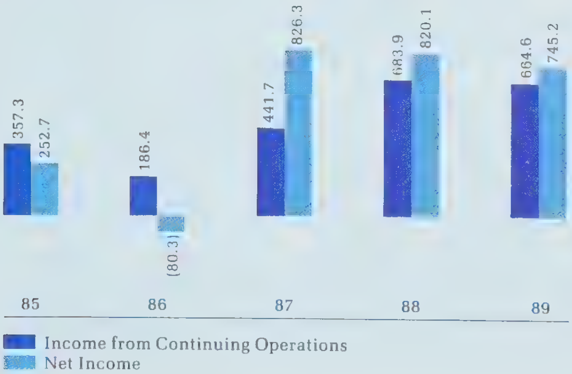
Changes in Accounting Policies
As explained in Note 3 on page 48 of this report, CP Limited revised the presentation of its financial statements in accordance with recommendations of the Canadian Institute of Chartered Accountants on the reporting of discontinued operations and extraordinary items. The change, which was made retroactively, had no effect on net income for 1989 or prior years.

Net Income
Net income was $745.2 million, or $2.35 per Ordinary share, in 1989, compared with $820.1 million, or $2.65 per share, in 1988 and $826.3 million, or $2.75 per share, in 1987. Income from continuing operations amounted to $664.6 million in 1989, $683.9 million in 1988 and $441.7 million in 1987. On a per Ordinary share basis, earnings from continuing operations were $2.09 in 1989, $2.21 in 1988 and $1.47 in 1987.

Per share figures are based on a weighted average number of Ordinary shares of 317.3 million in 1989, 309.1 million in 1988 and 300.5 million in 1987. The increases in 1989 and 1988 arose primarily from the issue of shares in the latter half of 1988 to acquire an interest in Laidlaw Inc.

Continuing Operations
Revenues from continuing operations rose from $10.3 billion in 1987 to $10.9 billion in 1988 and $11.0 billion in 1989, due largely to the Energy, Real Estate and Hotels, and Telecommunications and Manufacturing sectors, while operating profit declined from $1.7 billion in each of 1987 and 1988 to $1.5 billion in 1989. Operating profit in 1989 was adversely affected by reduced railway traffic, especially grain, weakness in markets for

Consolidated Income
($ millions)



Executive vice-presidents (clockwise from upper left) G.F. Michals, R.K. Gamey, J.F. Hankinson, I.B. Scott.

newsprint and the higher value of the Canadian dollar. On the other hand, there were major real estate sales and oil selling prices improved. In comparing 1988 with 1987, operating income in 1988 benefited from higher selling prices and increased shipments of forest products, notably newsprint and pulp, as well as gains on sale of real estate, but selling prices for oil and gas were lower and there was a reduction in CP Rail traffic, particularly grain.

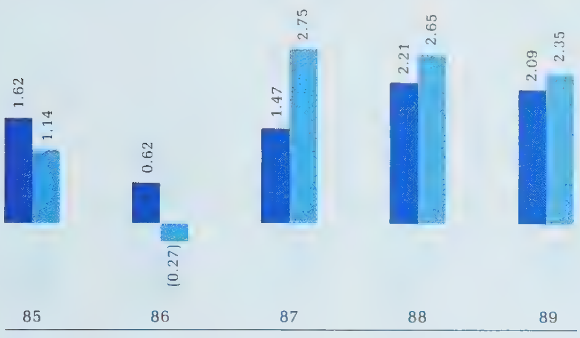
The following segment information should be read in conjunction with Note 2 on pages 44 to 47 of this report. Additional details covering operational performance, markets, industry developments, prospects and risks can be found in the Review of Operations on pages 10 to 31.

Since 1987, revenues from the Transportation and Waste Services sector declined an average of 5% per year to $3.9 billion, while operating profit fell by more than 50% to $280.0 million, mainly because of CP Rail, which is the major business in this sector.

Following a decline of 2% in 1988, CP Rail's revenues fell 9% to $2,476.3 million in 1989, while operating income declined from $515.0 million in 1987 to $415.3 million in 1988 and $222.9 million in 1989. CP Rail's performance was affected mainly by a reduction in traffic volumes of 3% in 1988 and 11% in 1989, as grain shipments in both years were seriously affected by the 1988 Prairie drought. While freight rates on average showed

Consolidated Earnings per Ordinary Share

($)



little improvement since 1987, operating costs continued to rise, particularly in respect of labour.

Revenues from the Energy sector were up, on average, 8% per year over the past two years, reaching $1,143.7 million in 1989. Operating income, after falling in 1988, increased 25% to $291.1 million in 1989, due principally to PanCanadian Petroleum.

In 1989 PanCanadian's revenues of $790.0 million and operating profit of $232.2 million were up $98.7 million and $38.5 million, respectively, over 1988. Better oil prices, together with increased volumes of oil arising mainly from 1988 property acquisitions, contributed to the improvement in 1989. The increases were offset in part by higher operating expenses and increased depreciation and depletion charges relating to the 1988 acquisitions. In comparing 1988 with 1987, lower crude oil and natural gas prices and increased expenses associated with greater production levels from developing properties and newly acquired interests resulted in a decline of $106.9 million in operating profit.

Fording Coal achieved steady growth in revenues and operating income, up 10% and 48% per annum, respectively, since 1987. Over this period coal shipments rose 14%, most of which occurred in 1988, selling prices were up and productivity improved considerably.

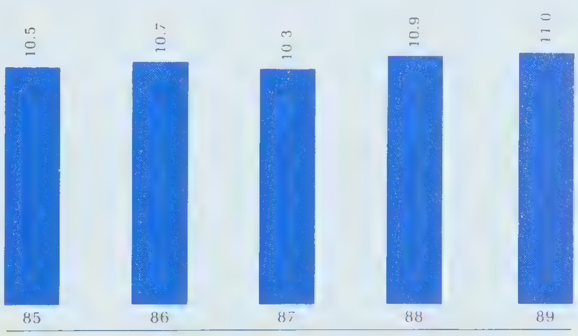
Compared with 1988, revenues from the Forest Products sector in 1989 declined 4% to $2.9 billion, while operating profit fell 34% to $384.4 million reflecting soft market conditions for newsprint and the higher value of the Canadian dollar in relation to the U.S. dollar. Newsprint shipments declined 4% and average selling prices were substantially lower. The higher value of the Canadian dollar was a major factor in that more than half of the sales from this sector are in U.S. dollars. In 1988 revenues and operating income were up 8% and 20%, respectively, over 1987, as a result of stronger newsprint and pulp markets which led to higher volumes and selling prices.

The past two-year period was one of continued improvement for the Real Estate and Hotels sector. Revenues were up an average of 22% per year, reaching $988.9 million in 1989 and operating profit rose by 37% per year to $359.2 million in 1989. Good rates of growth were achieved by Marathon, with revenues up an average of 20% per year and operating profit up 22% per year, mainly because of increased commercial and agricultural land sales, especially in 1989, together with a higher contribution from buildings and shopping centres during the period.

Results of the Real Estate and Hotels sector included gains on the sale of CP Rail land not required for railway operations, which amounted to $52.7 million, or $42.0 million after tax, in 1989, $55.6 million, or $42.3 million after tax, in 1988 and $2.7 million, or $2.3 million after tax, in 1987.

Consolidated Revenues from Continuing Operations

($ billions)



Revenues and operating income from CP Hotels in 1989 increased 12% and 19%, respectively, over 1988, due principally to higher room rates and investment income. Increased revenues and operating profit in 1988 compared with 1987 were largely the result of higher occupancy and room rates as well as the acquisition of CN Hotels effective April 1, 1988.

Total revenues from the Telecommunications and Manufacturing sector increased an average of 14% per year, reaching $2.5 billion in 1989, and operating profit rose by 32% per year to $160.9 million.

After recording an operating profit of $16.7 million in 1987, CP Telecommunications' operating income fell to $0.8 million in 1988, while an operating loss of $1.4 million was incurred in 1989. The deterioration during the period reflected mainly reduced demand for Telex and higher costs, especially for leased facilities. Following a decline of 7% in 1988, revenues more than doubled in 1989, due largely to the consolidation of CNCP Telecommunications following the purchase in December 1988 of Canadian National's 50% interest in CNCP.

Since 1987, AMCA's revenues rose an average of 11% per year to $ 1,837.5 million and operating profit more than doubled to $108.1 million, reflecting increased business activity in most of AMCA's divisions during 1988 and 1989.

Interest Expense

Total interest expenses in respect of continuing operations declined from $453.0 million in 1987 to $415.8 million in 1988, reflecting lower debt levels, primarily in the forest products and transportation businesses. Increased debt in 1989 was largely responsible for interest expenses rising to $510.4 million that year. Over the three-year period the interest coverage ratio ranged from 3.0 times in 1987 to 3.4 times in 1988 and 2.5 times in 1989.

Non-Operating Items

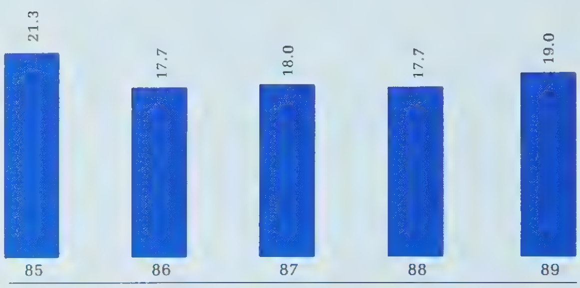
Non-operating income from continuing operations amounted to $122.0 million in 1989, compared with non-operating expenses of $23.0 million in 1988 and $312.4 million in 1987. The major components were as follows:

1989

- Gain of $81.6 million on sale of a 40% interest in CNCP Telecommunications;
- Gain of $29.6 million on sale by AMCA of its Giddings & Lewis unit;
- Income of $37.2 million consisting largely of amortization of foreign exchange gains on long term debt;
- Provision for a loss of $26.4 million on the pending sale of Soo Line's Kansas City rail line.

Total Assets

($ billions)



1988

- Write-down and restructuring charge of $59.8 million in respect of CP Telecommunications;
- Income of $36.8 million arising mainly from the amortization of foreign exchange gains on long term debt, partially offset by a loss on the sale of the hotel at Mirabel International Airport near Montreal.

1987

- A charge of $245.5 million taken by AMCA to reflect mainly the permanent impairment in the value of its Giddings & Lewis unit, which was sold in 1989;
- A provision for a loss of $44.5 million on the disposition at a later date of leased hotel properties in West Germany; these properties were divested in 1989;
- A charge of $31.5 million by Soo Line on the sale of its Lake States Transportation division;
- A gain of $27.1 million on the sale of a CP Ships office building.

Discontinued Operations

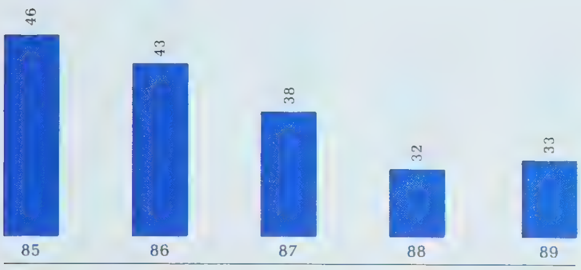
Income from discontinued operations of $80.6 million in 1989 consisted primarily of gains of $69.3 million on the sale of substantially all the Company's remaining Bulk Shipping operations and $5.7 million on selling Syracuse China Corporation, a wholly-owned U.S. subsidiary.

In 1988 income from discontinued operations amounting to $136.2 million included income from Bulk Shipping operations, of which a major part represented gains on selling a number of vessels, and there was a loss on sale of the Company's interest in The Algoma Steel Corporation, Limited.

As for 1987, income from discontinued operations amounted to $384.6 million, and comprised principally gains on selling Canadian Pacific Air Lines, Limited and Maple Leaf Mills Limited.

Debt to Total Capitalization

(%)



Liquidity and Capital Resources

As with 1987 and 1988, cash generated from operations and proceeds from the sale of businesses, investments and properties were CP Limited's principal sources of liquidity in 1989, and were used primarily for its investing activities. After declining in 1988, consolidated cash levels decreased $277.7 million in 1989. Additions to properties and the acquisition of businesses and investments totalling $2.3 billion, although down 24% from 1988, exceeded cash from operations of $1.1 billion and proceeds from asset sales of $0.9 billion, which in total were 21% less than in 1988. Although new borrowings were incurred, debt repayment was also made, resulting in a net debt increase of $364.3 million in 1989.

The proceeds from sales of businesses, investments and properties in 1989 included $288.7 million on the sale of 40% of CNCP Telecommunications, $194.1 million on disposals by AMCA, mainly its Giddings & Lewis unit, $168.7 million on the sale of real estate by CP Rail and Marathon, and $118.0 million on the sale of most of the remaining bulk shipping fleet.

Total dividends to CP Limited shareholders increased again in 1989 and amounted to $254.2 million. Since 1987 quarterly dividends on the Ordinary shares rose steadily – from $0.12 to $0.15 per share in the third quarter of 1987, to $0.19 in the third quarter of 1988, then to $0.23 in the third quarter of 1989. This represented an increase of 92% since 1987.

Following improvement from 38:62 at year-end 1987 to 32:68 in 1988, the debt:equity ratio moved to 33:67 by the end of 1989. In 1988, long term debt declined because of the sale of businesses and efforts by the Company's continuing operations to trim debt. In 1989 debt levels were higher, reflecting mainly net increases of $186.8 million attributable to the Parent Company, $166.8 million to Marathon Realty and $155.3 million to CP Forest Products. The funds were used to supplement cash from operations in financing capital expenditures. The largest debt reduction in 1989 was attributable to AMCA, where increased cash from operations and proceeds from the sale of businesses permitted a decrease in net debt of $172.3 million.

After remaining at approximately $18 billion in 1987 and 1988, consolidated assets rose to $19.0 billion by the end of 1989, reflecting additions to investments and properties.

Capital Expenditures

Additions to investments and properties of $2.3 billion in 1989 were down $0.7 billion from 1988, when CN's hotel and telecommunication operations were acquired for a total cost of $500.5 million and PanCanadian spent $450.4 million to acquire certain oil and gas properties. In addition, $499.3 million was spent in 1988 to acquire a 12% interest in Laidlaw's common equity, which was increased to 20% in 1989 with the purchase of 25.2 million Class B non-voting shares for $528.9 million from two public issues by Laidlaw.

Although down 46% from 1988 when the Rogers Pass double-track project was completed, CP Rail spent $207.1 million in 1989 for ongoing renewals and improvements to property. PanCanadian's expenditures for exploration and development of oil and gas reserves and related facilities amounted to $302.6 million in 1989. CP Forest Products' capital outlays were up 73% to $409.8 million in 1989 and were mainly for the completion of two newsprint joint venture projects and a second white paper machine as well as for continued modernization of facilities. Investments made by Marathon of $251.5 million were for its ongoing development of office buildings and shopping centres. CP Hotels continued its extensive renovation, upgrading and expansion program and spent $155.1 million in 1989. CP Telecommunications' expansion of its digital radio and fibre optic network involved expenditures of $164.1 million in 1989.

Commitments, Future Prospects and Risks

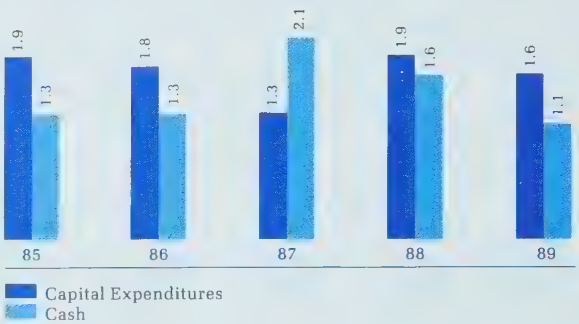
It is expected that consolidated capital expenditures will be approximately $2 billion in 1990. Of this amount, $599.4 million was committed at the end of 1989, comprised of $310.0 million for Marathon Realty, $133.6 million in respect of CP Forest Products, $59.7 million for Telecommunications and $50.7 million for CP Hotels. The commitments are principally for Marathon's development projects and for modernization and expansion programs in the other businesses. Commitments as of December 31, 1989 for capital expenditures beyond 1990 total $340.5 million and are largely for Marathon's ongoing development activities.

Cash requirements to cover ongoing operations, capital expenditures, debt repayments and dividends for the foreseeable future will be satisfied mainly by internally generated funds but also, where necessary, from existing credit facilities and future financings. As described in Note 23, unused lines of credit at the end of 1989 for short term financing amounted to $862.5 million, while unused commitments for long term financing were $2,453.2 million.

Overall, the major risk to the 1990 outlook for CP Limited stems from the possibility that the economic slowdown is more pronounced than currently forecast. As for the Company's businesses, CP Rail should benefit from higher freight traffic, as grain shipments return to normal following the drought-affected levels of the past two years. PanCanadian's outlook is good in view of the current strength in world oil markets. With newsprint being its largest business segment, CP Forest Products is significantly impacted by the current state of the market, with continued depressed prices arising mainly from additional capacity coming on line in the industry over the next two years. An added risk stems from the effects on sales of foreign exchange rate fluctuations. A decline in CP Limited's income from real estate is forecast because of the anticipated decrease in ownership of Marathon resulting from the proposed distribution of a majority interest in that company. Earnings from Telecommunications and Manufacturing are also expected to be down from 1989, when there were non-recurring gains on sale of a 40% interest in CNCP and one of AMCA's units.

Capital Expenditures and Cash from Operations

($ billions)



As detailed in Note 24, the Company's consolidated assets will decline by approximately $2 billion in 1990 upon the deconsolidation of Marathon Realty, following the planned distribution of an 80% interest in this company to CP Limited's Ordinary shareholders.

As a result of a tender offer early in 1990 for all the outstanding shares of Soo Line not already owned, CP Limited raised its ownership of Soo Line from 55.8% to 96%. The shares not already tendered under the offer will be acquired eventually at the original offer price of U.S. $21.50 per share. The acquisition, at a cost of approximately U.S. $95 million, is not expected to have a material effect on CP Limited's financial condition.

The Effects of Changing Price Levels

While not the problem it was in the 1970's and early 1980's, inflation remains a concern, especially in a climate of increased competition. Deregulation in the railway and trucking industries has heightened both intramodal and intermodal competition, in some instances lowering freight rates, while costs, particularly of materials, fuel and labour, continue to escalate. As for the Company's resource and manufacturing operations, world market conditions are the primary influence on selling prices for oil, gas, coal, newsprint and pulp, while input cost increases reflect rising domestic labour, material and energy costs.

Wage rates have tended to increase at about the same pace as inflation in recent years, which has generally remained at 4% per year, as measured by the Consumer Price Index in Canada, while in 1989 it rose to 5%. Canadian Pacific's businesses have attempted to offset the impact of inflation on operating and capital costs by increasing productivity. This has been achieved by modernizing, upgrading, replacing and expanding facilities and equipment.

Financial Statements

Statement of Consolidated Income

For the Year ended December 31	1989	1988	1987
	(in millions, except amounts per share)		
Revenues			
Goods sold	$ 5,880.5	$ 5,708.7	$ 5,168.6
Services	5,139.7	5,217.7	5,167.6
	11,020.2	10,926.4	10,336.2
Costs and Expenses			
Cost of goods sold	3,943.3	3,855.6	3,431.5
Cost of services	3,449.6	3,327.2	3,282.2
Selling, general and administrative	1,392.6	1,315.6	1,244.5
Depreciation, depletion and amortization	759.1	702.6	664.4
	9,544.6	9,201.0	8,622.6
Operating income (Note 2)	1,475.6	1,725.4	1,713.6
Interest expense (Note 4)	(510.4)	(415.8)	(453.0)
Non-operating income (expenses) (Note 5)	122.0	(23.0)	(312.4)
Equity in income of associated company	28.4	5.4	—
Income before income taxes and minority interest	1,115.6	1,292.0	948.2
Income taxes (Note 6)	351.5	486.5	552.3
Minority interest	99.5	121.6	(45.8)
Income from continuing operations (Note 2)	664.6	683.9	441.7
Discontinued operations (Note 7)	80.6	136.2	384.6
Net Income	$ 745.2	$ 820.1	$ 826.3
Earnings per Ordinary Share			
Income from continuing operations	$ 2.09	$ 2.21	$ 1.47
Net Income	$ 2.35	$ 2.65	$ 2.75

Statement of Consolidated Retained Income

For the Year ended December 31	1989	1988	1987
		(in millions)	
Balance, January 1	$ 4,638.2	$ 4,038.7	$ 3,375.3
Net income	745.2	820.1	826.3
Merger and share issue costs	—	(9.0)	—
	5,383.4	4,849.8	4,201.6
Dividends			
4% Preference shares	0.5	0.5	0.5
Ordinary shares (per share: 1989 – $0.84; 1988 – $0.68; 1987 – $0.54)	266.7	211.1	162.4
Total dividends	267.2	211.6	162.9
Balance, December 31	$ 5,116.2	$ 4,638.2	$ 4,038.7

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1989	1988	1987
		(in millions)	
Operating Activities			
Income from continuing operations	$ 664.6	$ 683.9	$ 441.7
Depreciation, depletion and amortization	759.1	702.6	664.4
Deferred income taxes	224.7	144.0	204.5
Minority interest	99.5	121.6	(45.8)
Losses (gains) from sales of businesses, investments and properties	(142.6)	(56.4)	40.0
Write-down of assets and restructuring costs	—	59.8	245.5
Other operating cash items, net	(163.5)	(104.9)	63.4
Cash from continuing operations, before changes in working capital	1,441.8	1,550.6	1,613.7
Decrease (increase) in non-cash working capital balances relating to continuing operations (Note 8)	(302.3)	56.4	363.7
Cash from continuing operations	1,139.5	1,607.0	1,977.4
Cash from discontinued operations	(1.0)	4.7	149.5
Total cash from operations	1,138.5	1,611.7	2,126.9
Dividends			
Paid to shareholders of the corporation	(254.2)	(196.9)	(153.5)
Paid to minority shareholders of subsidiaries	(68.7)	(57.7)	(63.2)
	(322.9)	(254.6)	(216.7)
Financing Activities			
Issuance of long term debt	938.2	997.0	616.5
Repayment of long term debt	(573.9)	(957.4)	(1,164.8)
Issuance of shares by subsidiaries	—	136.2	2.8
Redemption of Preferred Shares by subsidiaries	(56.6)	(7.6)	(89.9)
Issuance of Ordinary Shares by the corporation	32.6	323.6	68.7
	340.3	491.8	(566.7)
Investing Activities			
Business acquisitions and investments (Note 9)	(679.6)	(1,195.7)	(295.1)
Additions to properties	(1,640.8)	(1,863.9)	(1,254.7)
Sales of businesses, investments and properties	886.8	957.1	1,232.7
	(1,433.6)	(2,102.5)	(317.1)
Cash Position*			
Increase (decrease) in cash	(277.7)	(253.6)	1,026.4
Cash (deficit) at beginning of year	441.9	695.5	(330.9)
Cash at end of year	$ 164.2	$ 441.9	$ 695.5

*Cash comprises cash and temporary investments net of bank loans and notes payable.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet (December 31)

Assets		1989		1988
		(in millions)		
Current Assets				
Cash and temporary investments, at cost (approximates market)	$	**698.7**	$	580.2
Accounts receivable		**1,608.0**		1,664.7
Inventories (Note 11)		**1,019.0**		983.6
Other current assets		**39.1**		148.9
		3,364.8		3,377.4
Investments (Note 12)		**1,262.0**		652.9
Properties, at cost (Note 13)				
Transportation		**7,395.1**		7,415.1
Energy		**5,014.1**		4,700.5
Forest Products		**3,567.8**		3,179.2
Real Estate and Hotels		**3,276.6**		2,873.7
Telecommunications and Manufacturing		**1,433.3**		1,383.8
Discontinued Operations		**—**		193.1
		20,686.9		19,745.4
Less: Accumulated depreciation, depletion and amortization		**6,880.6**		6,550.4
		13,806.3		13,195.0
Other Assets and Deferred Charges (Note 14)		**615.2**		425.5
	$	**19,048.3**	$	17,650.8

Auditors' Report

To the Shareholders of Canadian Pacific Limited:
We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1989 and 1988 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Canadian Pacific Limited as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1989 in accordance with generally accepted accounting principles in Canada which, after giving retroactive effect to the change in accounting for discontinued operations and extraordinary items, with which we concur and which is described in note 3 to the financial statements, have been consistently applied.

Price Waterhouse

Chartered Accountants,
Montreal, Quebec,
March 12, 1990.

Liabilities and Shareholders' Equity	1989	1988
	(in millions)	
Current Liabilities		
Bank loans	$ 139.2	$ 125.8
Accounts payable and accrued liabilities	1,869.8	2,022.8
Notes payable	395.3	12.5
Income and other taxes payable	71.2	229.8
Dividends payable	81.7	68.7
Long term debt maturing within one year (Note 15)	521.2	393.5
	3,078.4	2,853.1
Deferred Liabilities	307.7	302.4
Long Term Debt (Note 15)	3,735.2	3,442.5
Perpetual 4% Consolidated Debenture Stock (Note 16)	162.9	178.1
Deferred Income Taxes	2,324.2	2,114.1
Deferred Income Credits (Note 17)	404.6	384.1
Minority Shareholders' Interest in Subsidiary Companies (Note 18)	1,238.8	1,073.4
Shareholders' Equity (Note 19)		
Preference Shares	14.9	14.9
Ordinary Shares		
Issued – 318,196,348 (1988 – 316,857,840) shares	1,214.9	1,182.3
Premium on securities	1,182.6	1,182.6
Other paid-in surplus	154.1	160.6
Foreign currency translation adjustments	113.8	124.5
Retained income	5,116.2	4,638.2
	7,796.5	7,303.1
Commitments (Note 23)		
	$ 19,048.3	$ 17,650.8

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

W.W. Stinson

W.W. Stinson, Director

I.B. Scott, Director

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("CP Limited"). All significant inter-company transactions and balances have been eliminated.

The principal companies and divisions included in each business segment are as follows:

December 31	1989	1988	1987
	Percentage Ownership		
Transportation and Waste Services			
CP Rail – a division of the Corporation			
Soo Line Corporation (Note 25)	**55.8%**	55.8%	55.8%
CP Ships			
Canada Maritime Limited	**57.0**	57.0	57.0
Racine Terminal (Montreal) Limited	**100.0**	100.0	100.0
CP Trucks			
Canadian Pacific Express & Transport Ltd.	**100.0**	100.0	100.0
Laidlaw Inc. (Note 9)	**20.0**	11.8	—
Energy			
PanCanadian Petroleum Limited	**87.1**	87.1	87.1
Fording Coal Limited	**100.0**	100.0	100.0
Forest Products			
Canadian Pacific Forest Products Limited	**79.7**	79.7	(Note 10)
Real Estate and Hotels			
Marathon Realty Company Limited (Note 24)	**100.0**	100.0	100.0
Canadian Pacific Hotels Corporation	**100.0**	100.0	100.0
Telecommunications and Manufacturing			
CPTel Holdings Inc.*	**60.0**	—	—
AMCA International Limited (Note 9)	**55.4**	55.4	50.6
Processed Minerals Incorporated	**100.0**	100.0	100.0

*Up to December 1988, the Corporation's Telecommunications division operated through two equal partnerships with Canadian National Railways – CNCP Telecommunications (CNCP) and Telecommunications Terminal Systems (TTS). In December 1988, the Corporation acquired Canadian National Railways' share of the net assets of both CNCP and TTS.

On July 13, 1989, the Corporation entered into an agreement for the sale of 40% of its Telecommunications division to Rogers Communications Inc. (Rogers). Prior to closing on September 22, 1989, the assets of the Telecommunications division were consolidated under a new wholly-owned subsidiary, CPTel Holdings Inc. The sale was completed by the Corporation transferring to Rogers 40% of its interest in CPTel Holdings Inc.

The Corporation accounts for its investment in its associated company, Laidlaw Inc., on the equity method. Under this method, the Corporation's share of income from Laidlaw Inc., less the amortization of the excess of the purchase price over net assets acquired, is included in net income.

Except for Canadian Pacific Forest Products Limited, which accounts for investments in joint ventures on the equity method, investments by other subsidiary companies in joint ventures are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to CP Limited, are described under Supplementary Data (see page 62).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Inter-company Transactions

Total revenues and expenses as reported in the statement of consolidated income reflect the elimination of inter-company transactions. Inter-company transactions and balances have also been eliminated in CP Limited's statement of changes in consolidated financial position and consolidated balance sheet.

Earnings per Ordinary Share

Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Post Retirement Benefits

For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits at January 1, 1987 (the date the present accounting policy was adopted by CP Limited) is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

For post retirement health care and life insurance benefits, costs are based on the annual insurance premium paid to provide these benefits.

Inventories
Rail materials and supplies, which consist primarily of fuel oil, repair or replacement materials for road and equipment property, are valued at average cost.

Raw materials and supplies are valued at the lower of cost and replacement cost.

Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts.

Finished goods are valued at the lower of cost and net realizable value.

Properties
Transportation: Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following CP Rail expenditures which are charged to expenses: labour costs relating to track structure replacements; interest on funds borrowed to finance capital expenditures; renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the National Transportation Agency of Canada.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the National Transportation Agency of Canada and by the Interstate Commerce Commission for the Soo Line Railroad Company. When railway depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Road diesel locomotives	27 to 40
Freight cars	25 to 51
Ties	28
Rails – in first position	21
– in other than first position	45
Ships	20
Trucks and trailers	7 to 12

Energy: CP Limited follows the full cost method of accounting for oil and gas properties, whereby all costs related to the exploration for and the development of conventional oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proven reserves, with net production and reserve volumes of natural gas and natural gas liquids converted to equivalent energy units of crude oil.

In determining the depletion and depreciation provisions, CP Limited includes any excess of the net book value of conventional oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proven oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the total unescalated, undiscounted future net operating revenues from proven oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. Prices utilized in the ceiling test calculations are the weighted average product prices prevailing at year end which CP Limited receives for its production.

Depreciation of conventional oil and natural gas plant, production and other equipment is provided for on the unit of production basis. The Empress and Syncrude facilities and the methanol plant are depreciated on the straight-line basis over the estimated productive lives of the assets.

Expenditures by CP Limited to acquire, explore for and develop identified coal properties are capitalized, net of costs relating to raw coal production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties are charged against income as incurred.

Abandoned coal properties are charged against income in the year of abandonment.

Depletion on operating mines is provided using a unit of production method based on the proven mineral reserve position.

Interest on funds borrowed to finance major energy projects is capitalized during the construction period.

Forest Products: Plants and properties are stated at cost. Pulp and paper mills are depreciated on a unit of production basis over their estimated economic lives. Other plants are depreciated on a straight-line basis over their estimated economic lives.

Interest on debt incurred to finance major expansion programs is capitalized during the construction period.

Real Estate and Hotels: Real estate and hotel properties are stated at cost, except for properties held for sale which are stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

All operating and carrying costs net of rental revenues are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time. Interest on funds used to finance new hotel facilities and major hotel renovations is capitalized during the construction period. Income from land sales is recorded in proportion to cash received when all material conditions of the contract have been fulfilled while income from sales of income properties is recorded in proportion to proceeds realized.

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over their estimated useful lives (up to a maximum of 40 years) in a series of annual instalments increasing at the rate of 5% compounded annually.

Telecommunications and Manufacturing: Property, plant and equipment are recorded at cost which, in the case of new manufacturing facilities, includes interest during construction. Maintenance and repairs are expensed as incurred.

Depreciation of plant and equipment is provided principally on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Rates for telecommunications equipment are approved by the Canadian Radio-television and Telecommunications Commission.

2. Segmented Information

Business Segments

CP Limited carries on its activities through five principal classes of business: Transportation and Waste Services, Energy, Forest Products, Real Estate and Hotels, and Telecommunications and Manufacturing. The business segments are based upon the major activities of significant subsidiaries and divisions of CP Limited.

The results of CP Rail and CP Telecommunications (prior to the sale of a 40% interest in the latter on September 22, 1989) reflect interest, corporate overhead and income tax allocations made by the Corporation. The results of all other entities, including CP Telecommunications from September 22, 1989, are based upon their reported net incomes adjusted, where applicable, for acquisition-related costs. Interest charges allocated to CP Rail and CP Telecommunications are based principally on cash flow, corporate overhead on the basis of cost of operations, and income taxes on the basis of each division's accounting income as adjusted for non-taxable items.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length

(in millions)		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Transportation and Waste Services					
CP Rail	**1989**	**$ 2,476.3**	**$ 1,623.6**	**$ 481.3**	**$ 148.5**
	1988	2,730.5	1,681.7	494.5	139.0
	1987	2,791.5	1,655.5	484.2	136.8
Soo Line Corporation	**1989**	**663.0**	**532.5**	**65.5**	**39.2**
	1988	710.7	540.1	64.2	42.0
	1987	819.7	650.6	50.7	53.7
CP Ships	**1989**	**282.3**	**193.9**	**55.5**	**9.4**
	1988	300.8	213.2	51.2	9.5
	1987	285.0	204.8	47.0	10.0
CP Trucks	**1989**	**533.4**	**457.2**	**48.4**	**20.0**
	1988	481.4	419.3	37.4	20.2
	1987	446.2	375.3	35.4	18.2
Laidlaw Inc.	**1989**	**—**	**—**	**—**	**—**
	1988	—	—	—	—
Total (after elimination of intra-segment items)	**1989**	**$ 3,897.4**	**$ 2,749.6**	**$ 650.7**	**$ 217.1**
	1988	4,166.9	2,797.8	647.3	210.7
	1987	4,289.6	2,833.4	617.3	218.7
Energy					
PanCanadian Petroleum Limited	**1989**	**$ 790.0**	**$ 284.6**	**$ 41.0**	**$ 232.2**
	1988	691.3	237.4	43.3	216.9
	1987	698.7	186.3	40.2	171.6
Fording Coal Limited	**1989**	**353.7**	**137.8**	**140.5**	**16.5**
	1988	336.0	139.3	140.0	17.7
	1987	290.0	125.7	122.4	14.9
Total	**1989**	**$ 1,143.7**	**$ 422.4**	**$ 181.5**	**$ 248.7**
	1988	1,027.3	376.7	183.3	234.6
	1987	988.7	312.0	162.6	186.5
Forest Products					
Canadian Pacific Forest Products Limited	**1989**	**$ 2,879.8**	**$ 2,245.4**	**$ 98.0**	**$ 152.0**
	1988	2,996.7	2,173.8	94.0	150.7
	1987	2,784.2	2,054.4	101.4	146.6

rates, are eliminated in reporting revenues and expenses by business segment. Services provided by entities in the Transportation and Waste Services segment to other entities in this segment yielded revenues in 1989 of $57.6 million (1988 – $56.5 million; 1987 – $52.8 million).

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment. Consolidated net income is not affected by this practice. Services provided by the Corporation's Transportation and Waste Services segment to other business segments yielded revenues in 1989 of $171.7 million (1988 – $185.1 million; 1987 – $171.5 million). Interest revenue earned by the Telecommunications and Manufacturing segment on loans to other business segments amounted to $82.9 million in 1989 (1988 – $85 million; 1987 – $71.7 million). Other charges between business segments amounted to $108.5 million in 1989 (1988 – $47.5 million; 1987 – $53.8 million).

Operating Income	Interest Expense	Non-Operating (Income) Expenses	Income Taxes	Minority Interest	Net Income	Identifiable Assets	Additions to Properties
$ 222.9	**$ 82.5**	**$ (13.8)**	**$ 69.4**	**$ —**	**$ 84.8**	**$ 4,484.1**	**$ 207.1**
415.3	87.9	(14.2)	160.4	—	181.2	4,800.4	386.0
515.0	100.1	0.4	220.9	—	193.6	4,249.2	316.5
25.8	**42.1**	**23.9**	**(10.4)**	**(13.2)**	**(16.6)**	**996.9**	**54.5**
64.4	41.9	(8.4)	11.6	8.5	10.8	1,053.1	45.8
64.7	53.0	31.5	(9.6)	(4.5)	(5.7)	1,166.0	34.5
23.5	**2.1**	**—**	**3.8**	**3.4**	**14.2**	**144.8**	**5.2**
26.9	2.1	(0.4)	5.8	2.5	16.9	129.0	12.5
23.2	3.9	(27.1)	11.4	1.1	33.9	119.4	6.2
7.8	**8.5**	**—**	**0.1**	**(0.1)**	**(0.7)**	**252.3**	**30.0**
4.5	6.2	—	(0.7)	—	(1.0)	227.8	18.4
17.3	5.9	9.2	5.7	—	(3.5)	226.0	28.7
—	**—**	**—**	**—**	**—**	**28.4**	**1,052.5**	**—**
—	—	—	—	—	5.4	503.3	—
$ 280.0	**$ 135.2**	**$ 10.1**	**$ 62.9**	**$ (9.9)**	**$ 110.1**	**$ 6,930.6**	**$ 296.8**
511.1	138.1	(23.0)	177.1	11.0	213.3	6,713.6	462.7
620.2	162.9	14.0	228.4	(3.4)	218.3	5,760.6	385.9
$ 232.2	**$ 42.8**	**$ —**	**$ 71.8**	**$ 17.2**	**$ 100.4**	**$ 2,924.4**	**$ 302.6**
193.7	21.6	0.9	63.1	16.1	92.0	2,878.0	726.3
300.6	9.5	0.4	124.8	23.4	142.5	2,574.5	214.3
58.9	**2.5**	**—**	**17.6**	**—**	**38.8**	**346.3**	**28.0**
39.0	0.2	—	8.3	—	30.5	337.9	31.0
27.0	3.2	—	7.6	—	16.2	321.0	22.5
$ 291.1	**$ 45.3**	**$ —**	**$ 89.4**	**$ 17.2**	**$ 139.2**	**$ 3,270.7**	**$ 330.6**
232.7	21.8	0.9	71.4	16.1	122.5	3,215.9	757.3
327.6	12.7	0.4	132.4	23.4	158.7	2,895.5	236.8
$ 384.4	**$ 23.4**	**$ (4.0)**	**$ 141.7**	**$ 47.9**	**$ 175.4**	**$ 3,203.1**	**$ 409.8**
578.2	40.5	(16.8)	220.9	74.0	259.6	2,900.8	237.2
481.8	85.4	(4.2)	179.1	51.5	170.0	2,729.7	172.1

2. Segmented Information (cont'd)

(in millions)		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Real Estate and Hotels					
Marathon Realty Company Limited	**1989**	**$ 528.2**	**$ 232.8**	**$ 11.4**	**$ 43.2**
	1988	426.0	209.4	9.5	33.1
	1987	364.7	166.8	9.6	27.7
CP Rail	**1989**	**52.7**	**—**	**—**	**—**
	1988	55.6	—	—	—
	1987	2.7	—	—	—
Canadian Pacific Hotels Corporation	**1989**	**408.0**	**257.4**	**62.2**	**22.7**
	1988	364.2	233.7	58.1	17.1
	1987	295.6	211.8	44.7	11.2
Total	**1989**	**$ 988.9**	**$ 490.2**	**$ 73.6**	**$ 65.9**
	1988	845.8	443.1	67.6	50.2
	1987	663.0	378.6	54.3	38.9
Telecommunications and Manufacturing					
CP Telecommunications	**1989**	**$ 370.4**	**$ 220.9**	**$ 100.9**	**$ 50.0**
	1988	147.5	104.3	21.7	20.7
	1987	158.3	89.9	29.4	22.3
AMCA International Limited	**1989**	**1,837.5**	**1,475.8**	**231.7**	**21.9**
	1988	1,803.1	1,458.4	227.1	29.4
	1987	1,486.9	1,197.9	203.2	34.9
Processed Minerals Incorporated	**1989**	**23.5**	**9.1**	**3.6**	**1.9**
	1988	39.9	19.2	6.8	3.7
	1987	48.4	24.9	7.8	5.0
Other	**1989**	**242.1**	**142.6**	**52.6**	**1.6**
	1988	216.8	127.1	67.8	2.6
	1987	214.1	119.6	68.5	11.5
Total	**1989**	**$ 2,473.5**	**$ 1,848.4**	**$ 388.8**	**$ 75.4**
	1988	2,207.3	1,709.0	323.4	56.4
	1987	1,907.7	1,432.3	308.9	73.7
Continuing Operations (after elimination of inter-segment items)	**1989**	**$11,020.2**	**$ 7,392.9**	**$ 1,392.6**	**$ 759.1**
	1988	10,926.4	7,182.8	1,315.6	702.6
	1987	10,336.2	6,713.7	1,244.5	664.4
Discontinued Operations (Note 7)	**1989**				
	1988				
	1987				
Consolidated Total	**1989**				
	1988				
	1987				

Operating Income	Interest Expense	Non-Operating (Income) Expenses	Income Taxes	Minority Interest	Net Income	Identifiable Assets	Additions to Properties
$ 240.8	**$ 129.0**	**$ —**	**$ 27.1**	**$ 0.5**	**$ 84.2**	**$ 2,324.1**	**$ 251.5**
174.0	119.1	—	15.6	0.3	39.0	2,131.9	156.1
160.6	107.5	—	18.9	0.8	33.4	2,155.6	194.3
52.7	**—**	**—**	**10.7**	**—**	**42.0**	**—**	**—**
55.6	—	—	13.3	—	42.3	—	—
2.7	—	—	0.4	—	2.3	—	—
65.7	**18.8**	**—**	**12.3**	**—**	**34.6**	**929.1**	**155.1**
55.3	13.0	8.4	12.9	—	21.0	677.6	90.6
27.9	0.8	44.5	8.1	—	(25.5)	312.0	100.1
$ 359.2	**$ 147.8**	**$ —**	**$ 50.1**	**$ 0.5**	**$ 160.8**	**$ 3,253.2**	**$ 406.6**
284.9	132.1	8.4	41.8	0.3	102.3	2,809.5	246.7
191.2	108.3	44.5	27.4	0.8	10.2	2,467.6	294.4
$ (1.4)	**$ 14.6**	**$ (81.6)**	**$ 20.8**	**$ (1.0)**	**$ 45.8**	**$ 668.9**	**$ 164.1**
0.8	7.0	59.5	(31.6)	—	(34.1)	504.1	66.1
16.7	5.3	13.5	(1.0)	—	(1.1)	212.3	39.7
108.1	**35.3**	**(25.0)**	**12.1**	**44.8**	**40.9**	**1,104.2**	**19.6**
88.2	45.3	—	11.6	20.2	11.1	1,340.5	46.1
50.9	51.1	245.5	3.6	(118.1)	(131.2)	1,029.0	32.3
8.9	**—**	**—**	**1.8**	**—**	**7.1**	**35.6**	**10.1**
10.2	0.3	(2.1)	3.3	—	8.7	30.1	7.2
10.7	0.5	—	3.2	—	7.0	66.4	4.4
45.3	**108.8**	**(21.5)**	**(27.3)**	**—**	**(14.7)**	**2,012.1**	**1.6**
19.3	30.7	(3.9)	(8.0)	—	0.5	1,602.0	2.8
14.5	26.8	(1.3)	(20.8)	—	9.8	1,969.3	23.4
$ 160.9	**$ 158.7**	**$ (128.1)**	**$ 7.4**	**$ 43.8**	**$ 79.1**	**$ 3,820.8**	**$ 195.4**
118.5	83.3	53.5	(24.7)	20.2	(13.8)	3,476.7	122.2
92.8	83.7	257.7	(15.0)	(118.1)	(115.5)	3,277.0	99.8
$ 1,475.6	**$ 510.4**	**$ (122.0)**	**$ 351.5**	**$ 99.5**	**$ 664.6**	**$19,031.9**	**$ 1,639.2**
1,725.4	415.8	23.0	486.5	121.6	683.9	17,358.0	1,826.1
1,713.6	453.0	312.4	552.3	(45.8)	441.7	16,196.7	1,189.0
					$ 80.6	**$ 16.4**	**$ 1.6**
					136.2	305.2	37.8
					384.6	1,858.6	65.7
					$ 745.2	**$19,048.3**	**$ 1,640.8**
					820.1	17,650.8	1,863.9
					826.3	18,000.7	1,254.7

2. Segmented Information (cont'd)		1989		1988		1987
				(in millions)		
Geographic Segments						
Canada						
Revenues						
Domestic	$	5,808.4	$	5,546.8	$	5,343.6
Export		2,930.5		2,996.3		2,651.4
Inter-company revenues		(420.7)		(374.1)		(349.8)
	$	8,318.2	$	8,169.0	$	7,645.2
Income from continuing operations	$	600.5	$	660.8	$	588.4
Identifiable assets	$	15,660.6	$	15,142.9	$	15,265.4
United States						
Revenues	$	2,075.7	$	2,140.3	$	2,115.4
Income from continuing operations	$	(2.9)	$	(3.7)	$	(121.9)
Identifiable assets	$	2,988.6	$	3,138.6	$	3,238.5
Other Countries						
Revenues	$	626.3	$	617.1	$	575.6
Income from continuing operations	$	38.6	$	21.4	$	(24.8)
Identifiable assets	$	793.1	$	636.9	$	485.1
Associated Company – Laidlaw Inc.						
Equity in income	$	28.4	$	5.4	$	—
Investment	$	1,052.5	$	503.3	$	—
Summary						
Revenues	$	11,020.2	$	10,926.4	$	10,336.2
Income from continuing operations	$	664.6	$	683.9	$	441.7
Identifiable assets	$	20,494.8	$	19,421.7	$	18,989.0
Inter-company eliminations		(1,446.5)		(1,770.9)		(988.3)
	$	19,048.3	$	17,650.8	$	18,000.7

3. Changes In Accounting Policies

Discontinued Operations and Extraordinary Items
In 1989, CP Limited adopted on a retroactive basis the recently released recommendations of the Canadian Institute of Chartered Accountants on the reporting of Discontinued Operations and Extraordinary Items. The main features of the recommendations are the requirement to disclose the results of discontinued operations separately from the results of continuing operations, and a revised definition of the type of events and transactions that should be reported as extraordinary items. Adoption of the recommendations had no impact on the current or prior years' consolidated net income.

The principal effect of the change in accounting policies is on the presentation of CP Limited's statement of consolidated income. A summary of how this statement would have been presented if the recommendations had not been adopted is as follows:

For the Year ended December 31		1989		1988		1987
				(in millions)		
Revenues	$	11,143.0	$	12,016.3	$	12,304.2
Operating income		1,487.7		1,870.6		1,880.1
Income before income taxes, minority interest and extraordinary items		1,044.9		1,462.7		1,319.6
Income before extraordinary items		619.1		774.5		636.7
Extraordinary items		126.1		45.6		189.6
Net income		745.2		820.1		826.3

4. Interest Expense

	1989	1988	1987
		(in millions)	
Long term debt and debenture stock	$ 523.4	$ 412.1	$ 436.7
Short term debt	78.1	52.4	39.3
	601.5	464.5	476.0
Less: Interest capitalized on funds borrowed to finance capital projects	91.1	48.7	23.0
	$ 510.4	$ 415.8	$ 453.0

5. Non-Operating Income (Expenses)

	1989	1988	1987
		(in millions)	
Non-operating income (expenses) consist of the following:			
Gain from the sale by the Corporation of a 40% interest in its CNCP Telecommunications division	$ 81.6	$ —	$ —
Gain from the sale by AMCA International Limited of investment in a subsidiary company	29.6	—	—
Provision for loss on sale of the Kansas City line by Soo Line Corporation	(26.4)	—	—
Write-down of assets and restructuring costs in respect of:			
CP Telecommunications	—	(59.8)	—
AMCA International Limited	—	—	(245.5)
Gain from the sale of an office building by a wholly-owned subsidiary	—	—	27.1
Provision for loss on disposal of leased hotel properties in West Germany by Canadian Pacific Hotels Corporation	—	—	(44.5)
Loss on sale of Lake States division by Soo Line Corporation	—	—	(31.5)
Other	37.2	36.8	(18.0)
	$ 122.0	$ (23.0)	$ (312.4)

6. Income Taxes

	1989	1988	1987
		(in millions)	
The provision for income taxes on income from continuing operations is summarized as follows:			
Canadian			
Current	$ 107.7	$ 320.7	$ 324.2
Deferred	246.1	134.0	225.3
	$ 353.8	$ 454.7	$ 549.5
Foreign			
Current	$ 19.1	$ 21.8	$ 23.6
Deferred	(21.4)	10.0	(20.8)
	$ (2.3)	$ 31.8	$ 2.8
Total			
Current	$ 126.8	$ 342.5	$ 347.8
Deferred	224.7	144.0	204.5
	$ 351.5	$ 486.5	$ 552.3
The deferred income tax provision on income from continuing operations arose from the following:			
Excess of tax over book depreciation	$ 171.5	$ 147.8	$ 199.9
Exploration and development allowances	29.4	25.7	18.2
Losses tax affected	(51.1)	(71.0)	(34.8)
Other	74.9	41.5	21.2
	$ 224.7	$ 144.0	$ 204.5
The difference between the provision for income taxes and the provision obtained by applying the statutory tax rate is as follows:			
Income tax at the statutory rate	$ 462.3	$ 610.4	$ 488.1
Depletion and resource allowances	(41.6)	(53.1)	(57.8)
Foreign tax differentials	(5.6)	(15.9)	(11.1)
Royalties and mineral reserve tax	19.0	15.2	18.7
Manufacturing and processing credits	(7.9)	(22.2)	(24.9)
Loss carry forwards recognized	(32.1)	(6.5)	(10.7)
Losses not tax affected	5.4	12.7	129.2
Capital gains rate differential	(50.6)	(30.8)	(12.7)
Equity earnings	(9.0)	(2.5)	—
Large corporations tax	8.3	—	—
Other	3.3	(20.8)	33.5
Provision for income taxes on income from continuing operations	$ 351.5	$ 486.5	$ 552.3

7. Discontinued Operations

On May 23, 1989, the Corporation's wholly-owned subsidiary, Canadian Pacific (Bermuda) Limited, entered into an agreement to dispose of substantially all of its remaining bulkship fleet for cash proceeds of $118 million. The sale was accounted for as of September 30, 1989 when delivery of all of the vessels to the purchaser had taken place.

On June 12, 1989, the Corporation decided to sell its wholly-owned subsidiaries, Syracuse China Corporation (Syracuse China) and Processed Minerals Incorporated (Processed Minerals). The sale of Syracuse China was completed on December 15, 1989 for cash proceeds of $58.3 million. On the same date the Corporation announced that the sale of Processed Minerals had not been completed and that negotiations with a potential buyer had been terminated. The results of Processed Minerals, which were included under Discontinued Operations in the Corporation's interim financial statements for the nine months ended September 30, 1989 have been reinstated as part of the Corporation's 1989 results from continuing operations.

On August 18, 1988, the Corporation sold its interest in The Algoma Steel Corporation, Limited (Algoma) for cash proceeds of $246.2 million.

On January 30, 1987, the Corporation sold its investment in Canadian Pacific Air Lines, Limited (CP Air) for cash proceeds of $300 million and on August 26, 1987, sold its investment in Maple Leaf Mills Limited (Maple Leaf) for cash proceeds of $359.5 million.

The results of discontinued operations are summarized below: (in millions)

1989	Syracuse China	Bulk Shipping	Total
Revenues	$ 38.7	$ 42.2	$ 80.9
Income from operations	2.0	4.4	6.4
Income taxes	0.8	—	0.8
	1.2	4.4	5.6
Gain from sale	11.6	69.3	80.9
Income taxes	5.9	—	5.9
	5.7	69.3	75.0
	$ 6.9	$ 73.7	$ 80.6

1988	Algoma	Syracuse China	Bulk Shipping	Total
Revenues	$ 901.3	$ 77.6	$ 146.4	$ 1,125.3
Income from operations	45.6	4.4	136.7	186.7
Income taxes	21.8	1.7	0.6	24.1
	23.8	2.7	136.1	162.6
Loss from sale	(25.6)	—	—	(25.6)
Income taxes	0.8	—	—	0.8
	(26.4)	—	—	(26.4)
	$ (2.6)	$ 2.7	$ 136.1	$ 136.2

1987	CP Air	Maple Leaf	Algoma	Syracuse China	Bulk Shipping	Total
Revenues	$ 95.6	$ 535.0	$ 1,240.9	$ 57.6	$ 135.8	$ 2,064.9
Income from operations	(13.2)	14.7	31.3	11.0	30.5	74.3
Income taxes	(5.7)	6.5	16.6	5.0	0.6	23.0
	(7.5)	8.2	14.7	6.0	29.9	51.3
Gain from sale	227.7	199.9	—	—	—	427.6
Income taxes	55.2	39.1	—	—	—	94.3
	172.5	160.8	—	—	—	333.3
	$ 165.0	$ 169.0	$ 14.7	$ 6.0	$ 29.9	$ 384.6

The results of discontinued operations are after deductions for depreciation expense of $5.8 million in 1989, $59.4 million in 1988 and $88.1 million in 1987, and are after deductions for interest expense of $1.2 million in 1989, $39.6 million in 1988 and $63.8 million in 1987.

8. Changes in Non-Cash Working Capital Balances	1989	1988	1987
		(in millions)	
Decrease (increase) in current assets			
Accounts receivable	$ 56.7	$ 65.4	$ 144.7
Inventories	(35.4)	207.3	77.9
Other current assets	109.8	111.8	268.1
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	(153.0)	(168.2)	103.9
Income and other taxes payable	(158.6)	(54.3)	177.3
Decrease (increase) in non-cash working capital balances during year	(180.5)	162.0	771.9
Changes in non-cash working capital balances relating to discontinued operations	(121.8)	(105.6)	(408.2)
Decrease (increase) in non-cash working capital balances relating to continuing operations	$ (302.3)	$ 56.4	$ 363.7

9. Business Acquisitions and Investments	1989	1988	1987
		(in millions)	
Expenditures on business acquisitions and investments comprise the following:			
Investment by the Corporation in Laidlaw Inc. (see below)	$ 528.9	$ 499.3	$ —
Acquisition of			
CN Hotels (see below)	—	265.5	—
CNCP and TTS (see below)	—	235.0	—
Acquisitions and investments by subsidiaries	150.7	195.9	295.1
	$ 679.6	$ 1,195.7	$ 295.1

On July 15, 1988, the Corporation acquired 22,500,000 Class A shares of Laidlaw Inc. (formerly Laidlaw Transportation Limited) for $499.3 million or $22.19 per share. The purchase price was satisfied by the issue of 12,000,000 Ordinary Shares of the Corporation valued at $279 million and the balance in cash.

On March 21, 1989, the Corporation acquired 15,161,034 Class B non-voting shares of Laidlaw Inc. (Laidlaw) for cash consideration of $271.4 million or $17.90 per share. On December 6, 1989, the Corporation acquired an additional 10,000,000 Class B non-voting shares for cash consideration of $257.5 million or $25.75 per share.

The Laidlaw Class A voting shares purchased represent 47.2% of Laidlaw's Class A voting shares outstanding, while the Class B non-voting shares purchased represent 13.2% of Laidlaw's Class B non-voting shares outstanding. The Corporation's ownership interest in Laidlaw, based on the combined number of Class A and Class B shares outstanding, was 20.0% at December 31, 1989 and 11.8% at December 31, 1988.

At December 31, 1989, Laidlaw had outstanding preference shares which were convertible into Class B non-voting shares. Also at December 31, 1989, Laidlaw had various stock options outstanding. If such shares had been converted and the stock options exercised at December 31, 1989, the Corporation's ownership interest in Laidlaw would have been 18.7%.

At December 31, 1989, the difference of approximately $595 million between the carrying amount of the Corporation's investment in Laidlaw and its share of the underlying equity in net assets of Laidlaw has been assigned to goodwill and is being written off over forty years.

The quoted market value of the Corporation's investment in Laidlaw as of December 31, 1989, was $1,265.8 million.

The following is a summary of the reported results and financial position of Laidlaw:

Year ended August 31	1989	1988	1987
		(U.S. $ in millions)	
Revenues	$ 1,413.4	$ 1,183.0	$ 892.9
Income from operations	247.0	204.1	141.4
Net income	210.8	147.4	92.3
Net income applicable to Class A and Class B shares	202.5	133.6	81.9

August 31	1989	1988
	(U.S. $ in millions)	
Total assets	$ 2,651.3	$ 1,636.9
Total liabilities	1,174.1	730.3
Shareholders' equity	1,477.2	906.6

9. Business Acquisitions and Investments (cont'd)

Dividends received by the Corporation from Laidlaw amounted to $8.1 million in 1989 and $2.3 million in 1988.

In April 1988, the Corporation, through its wholly-owned subsidiary, Canadian Pacific Hotels Corporation, acquired the CN Hotels' chain consisting of nine owned or managed hotels for $265.5 million.

In December 1988, the Corporation acquired Canadian National Railways' share of the net assets of both CNCP Telecommunications (CNCP) and Telecommunications Terminal Systems (TTS) for $235 million. Prior to the acquisition, both CNCP and TTS were operated as equal partnerships by Canadian National Railways and the Corporation.

The acquisitions have been accounted for by the purchase method and the results of operations from the acquired assets are included in CP Limited's consolidated results from the dates of acquisition.

During 1988 the Corporation, through its wholly-owned subsidiary, Canadian Pacific Enterprises Limited, participated in two rights offerings by its subsidiary, AMCA International Limited (AMCA). In addition to subscribing for its proportionate share of the rights offerings, the Corporation also purchased shares not subscribed for by AMCA's other common shareholders. After these purchases, the Corporation's ownership interest in AMCA had increased from 50.6% to 55.4%. The excess of cost over book value of the increased ownership interest in AMCA, which amounts to approximately $10 million, has been allocated to AMCA's depreciable assets.

10. Canadian Pacific Forest Products Limited

On June 2, 1988, Great Lakes Forest Products Limited (Great Lakes), a 54.3% owned subsidiary of the Corporation, and CIP Inc. (CIP), a wholly-owned subsidiary of the Corporation, were merged to form Canadian Pacific Forest Products Limited. The merger was implemented through the acquisition by Great Lakes of all the outstanding shares of CIP in exchange for 24,421,775 common shares of Great Lakes. The Corporation, which has a 79.7% ownership interest in the merged company, accounted for the transaction as a purchase of additional shares in Great Lakes for consideration equivalent to the carrying value of the Corporation's investment in CIP.

The excess of the acquisition cost over the book value of the Great Lakes shares acquired (approximately $94 million) has been allocated to Forest Products land assets.

Earnings from Canadian Pacific Forest Products Limited for 1988 incorporate the Corporation's share of CIP's and Great Lakes' 1988 earnings prior to the merger and the Corporation's share of the merged company's earnings thereafter. For comparative purposes, the Corporation's quarterly and annual earnings from CIP and Great Lakes prior to the merger have been aggregated.

11. Inventories

	1989	1988
	(in millions)	
Rail materials and supplies	$ 211.5	$ 201.5
Raw materials	280.6	278.9
Work in progress	145.9	126.8
Finished goods	214.5	232.9
Stores and materials	166.5	143.5
	$ 1,019.0	$ 983.6

12. Investments

	1989	1988
	(in millions)	
Accounted for on the equity basis:		
Laidlaw Inc. (Note 9)	$ 1,052.5	$ 503.3
Gold River Newsprint Limited Partnership	84.5	38.1
Ponderay Newsprint Company	32.6	16.3
Other	18.6	19.0
Accounted for on the cost basis	73.8	76.2
	$ 1,262.0	$ 652.9

13. Properties and Accumulated Depreciation, Depletion and Amortization

	1989			1988
	(in millions)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Transportation				
CP Rail	$ 5,965.9	$ 2,087.4	**$ 3,878.5**	$ 3,850.4
Soo Line Corporation	1,031.2	325.4	**705.8**	834.3
CP Ships	141.1	92.9	**48.2**	53.5
CP Trucks	256.9	118.5	**138.4**	132.1
	7,395.1	2,624.2	**4,770.9**	4,870.3
Energy				
PanCanadian Petroleum Limited	4,537.3	1,771.3	**2,766.0**	2,695.4
Fording Coal Limited	476.7	205.2	**271.5**	261.7
	5,014.0	1,976.5	**3,037.5**	2,957.1
Forest Products				
Canadian Pacific Forest Products Limited	3,567.8	1,286.4	**2,281.4**	2,025.1
Real Estate and Hotels				
Marathon Realty Company Limited	2,425.8	184.3	**2,241.5**	2,023.5
Canadian Pacific Hotels Corporation	850.9	130.3	**720.6**	587.5
	3,276.7	314.6	**2,962.1**	2,611.0
Telecommunications and Manufacturing				
CPTel Holdings Inc.	1,059.2	506.5	**552.7**	442.7
AMCA International Limited	299.0	147.8	**151.2**	171.9
Processed Minerals Incorporated	29.2	8.6	**20.6**	13.2
Other	45.9	16.0	**29.9**	34.8
	1,433.3	678.9	**754.4**	662.6
Discontinued Operations	—	—	**—**	68.9
	$ 20,686.9	$ 6,880.6	**$ 13,806.3**	$ 13,195.0

14. Other Assets and Deferred Charges

	1989	1988
	(in millions)	
Long term receivables	**$ 60.3**	$ 134.8
Goodwill	**101.9**	104.0
Prepaid pension costs	**74.2**	38.4
Net assets to be disposed	**162.1**	—
Other	**216.7**	148.3
	$ 615.2	$ 425.5

15. Long Term Debt

	1989	1988
	(in millions)	
Canadian Pacific Limited		
8⅞% – 11¼% Collateral Trust Bonds due 1992-1995	$ 69.5	$ 91.9
8½% – 10⅛% Equipment Trust Certificates due 1990-1998	129.1	141.9
7½% – 12½% Debentures due 1990-1999	780.1	561.5
Obligations under capital leases due 1990-2000	48.0	44.6
Soo Line Corporation		
7½% – 13⅝% Equipment Trust Certificates due 1990-1996	33.4	43.1
10¾% – 12.95% Notes due 1995-2005	175.3	229.2
Commercial paper obligations, 9% average at year-end	113.2	78.5
Sundry borrowings due 1990-1999	6.9	6.2
Obligations under capital leases due 1990-1999	28.9	38.6
Canada Maritime Limited		
Bank loans due 1990-1994	11.8	16.3
Obligations under capital leases due 1990-1994	4.6	5.9
Canadian Pacific Express & Transport Ltd.		
Notes due 1990	76.0	43.5
Bank loans due 1991	5.0	1.6
PanCanadian Petroleum Limited		
8⅛% – 12½% Debentures due 1990-1993	83.4	84.8
Bank loans due after 1990	273.9	322.8
Fording Coal Limited		
10% Notes due 1993	25.0	33.5
Canadian Pacific Forest Products Limited		
Bank term loans due 1991-1997	183.6	60.6
11.94% Bank term loan due 1990	29.0	29.8
10.85% Debentures due 2014	125.0	—
Sundry due 1990-1998	27.8	119.7
Marathon Realty Company Limited		
9% – 14¾% First mortgage bonds due 1990-2007	264.6	271.9
9.85% – 11¼% Secured bonds and debentures due 1991-2006	247.0	97.4
8⅞% – 13⅜% Mortgages due 1990-2018	482.4	442.5
Bank term loans due 1990-1993	453.1	404.8
Sundry due 1990-1994	80.4	144.1
Canadian Pacific Hotels Corporation		
10% – 10½% Notes due 1993-1995	250.0	200.0
Revolving term loans and sundry borrowings due 1990-1993	44.5	6.8
AMCA International Limited		
7⅜% Deutsche Mark Bonds due 1992	102.6	167.8
Bank loans due 1992	66.1	84.3
5⅗% – 11½% Notes due 1990-2004	38.3	67.5
12¼% Debentures	—	59.7
Canadian Pacific Securities Limited		
8¼% – 9½% Debentures due 1990-1993	44.4	45.6
9.85% Guaranteed debentures due 1994	150.0	—
15% Guaranteed note	—	90.0
Canadian Pacific Enterprises Limited		
Notes due 1993	275.6	236.8
Other companies	1.4	1.6
Discontinued operations	—	14.4
Inter-company eliminations	(473.5)	(453.2)
	4,256.4	3,836.0
Less: Long term debt maturing within one year	521.2	393.5
	$ 3,735.2	$ 3,442.5

15. Long Term Debt (cont'd)

Collateral Trust Bonds are secured by a pledge of the Corporation's Perpetual 4% Consolidated Debenture Stock aggregating in the principal amount of $159.2 million at December 31, 1989.

Equipment Trust Certificates are secured by specific units of railway rolling stock.

Canadian Pacific Limited debentures are unsecured, but carry a negative pledge pursuant to which the Corporation has covenanted not to issue any further Perpetual 4% Consolidated Debenture Stock.

Marathon mortgages, bonds, debentures and bank term loans totalling $1,406.5 million are secured by income properties and income properties under construction.

At December 31, 1989 foreign currency long term debt, denominated principally in United States dollars, amounted to $2,398.8 million (1988 – $2,454 million).

Unless otherwise specified, notes payable bear interest at rates which fluctuate with money market rates.

Of the aggregate bank loans of $1,022.7 million included above, $991.2 million bear interest at rates which fluctuate with bank prime or money market rates.

Annual maturities and sinking fund requirements for each of the five years following 1989 are: 1990 – $521.2 million; 1991 – $119.8 million; 1992 – $444.9 million; 1993 – $617 million; 1994 – $649.1 million.

16. Perpetual 4% Consolidated Debenture Stock

Currency of Issue	Sterling	United States Dollar	Canadian Dollar	1989 Total	1988 Total
	(in millions)				
Issued	£ 46.8	$ 83.7	$ 137.5	**$ 322.1**	$ 390.8
Less: Pledged as collateral	—	18.7	137.5	**159.2**	212.7
	£ 46.8	$ 65.0	$ —	**$ 162.9**	$ 178.1

The consolidated debenture stock, created by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Corporation, with certain exceptions.

17. Deferred Income Credits

Deferred Income Credits include $197.7 million (1988 – $190.8 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, $86.9 million (1988 – $60.2 million) from other bodies, mainly for relocation of railway lines, and $79.1 million (1988 – $80.5 million) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include $38.2 million (1988 – $49.4 million) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

18. Minority Shareholders' Interest in Subsidiary Companies

	1989	1988
	(in millions)	
Soo Line Corporation	**$ 123.2**	$ 141.3
Canada Maritime Limited	**13.3**	14.4
PanCanadian Petroleum Limited	**189.8**	182.3
Canadian Pacific Forest Products Limited	**396.0**	375.2
Marathon Realty Company Limited	**0.4**	1.8
CPTel Holdings Inc.	**205.0**	—
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	**2.7**	56.7
9.5% Cumulative redeemable convertible preferred shares	**100.0**	100.0
9.25% Cumulative redeemable retractable preferred shares	**53.8**	53.8
Common share equity	**154.6**	147.9
	$ 1,238.8	$ 1,073.4

19. Shareholders' Equity

Preferred Shares: At December 31, 1989, the Corporation was authorized to issue 20,381,788 Cumulative Redeemable Shares without nominal or par value. No shares of this class are outstanding.

Preference Shares: 4% Non-Cumulative
Authorized: an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

December 31	**1989**	1988	1987
		(in millions)	
Issued:			
2,561,769 Sterling Preference Shares	**$ 4.2**	$ 4.2	$ 4.2
10,713,816 Canadian Dollar Preference Shares	**10.7**	10.7	10.7
	$ 14.9	$ 14.9	$ 14.9

Every Sterling Preference Share and every Canadian Dollar Preference Share gives the same rights as to voting as are given by an Ordinary Share.

At December 31, 1989, Chemainus Towing Co. Ltd. (an indirect subsidiary of the Corporation) held 33,000 Sterling and 825,375 Canadian Dollar Preference Shares in the Corporation at a total cost of $452,000.

Ordinary Shares: At December 31, 1989, the Corporation was authorized to issue an unlimited number of shares without nominal or par value.

An analysis of Ordinary Share balances is as follows:

	1989		1988		1987	
	Number	Amount	Number	Amount	Number	Amount
			(in millions)			
Balance, January 1	**316.9**	**$ 1,182.3**	302.8	$ 858.7	299.5	$ 790.0
Issued as partial consideration for purchase of Laidlaw shares (Note 9)	**—**	**—**	12.0	279.0	—	—
Issued under dividend reinvestment, share purchase, and stock option plans	**1.3**	**32.6**	2.1	44.6	3.3	68.7
Balance, December 31	**318.2**	**$ 1,214.9**	316.9	$ 1,182.3	302.8	$ 858.7

Effective December 31, 1989, the Corporation amended its Dividend Reinvestment and Share Purchase Plan to eliminate the provisions which permitted participants to acquire new Ordinary Shares of the Corporation by investing optional cash payments. Participants in the plan may continue to acquire Ordinary Shares by reinvesting cash dividends paid on Ordinary Shares held by them.

Foreign Currency Translation Adjustments:
An analysis of the Foreign Currency Translation Adjustments balance is as follows:

	1989	1988	1987
		(in millions)	
Balance, January 1	**$ 124.5**	$ 176.9	$ 228.3
Effect of exchange rate changes	**(10.8)**	(43.9)	(39.3)
Other	**0.1**	(8.5)	(12.1)
Balance, December 31	**$ 113.8**	$ 124.5	$ 176.9

20. Stock Options

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase Ordinary Shares of the Corporation at a price not less than 90% of the market value of the share at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Share Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment, either in cash or Ordinary Shares, of an amount equal to the excess of the market value of an Ordinary Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

Under a senior executive long-term incentive plan, certain senior executives of the Corporation are entitled, under certain conditions, to purchase Ordinary Shares. During 1989, no Ordinary Shares (1988 – 41,717) were purchased under this plan.

The number of Ordinary Shares authorized for issuance under the stock option and senior executive long-term incentive plans at December 31, 1989 was 5,000,000 (1988 – 5,000,000), of which 3,067,218 shares (1988 – 4,096,113) were available for the granting of future options and future share purchases under the senior executive long-term incentive plan.

At December 31, 1989, options covering 1,175,771 Ordinary Shares (1988 – 846,432) were outstanding:

Expiry Date	Exercise Price Per Share	Number of Shares
June 30, 1996	$ 16.813	228,150
January 31, 1997	19.875	242,667
August 31, 1997	27.250	21,568
December 31, 1997	20.563	55,934
June 30, 1998	23.188	244,618
January 31, 1999	24.188	329,252
August 31, 1999	27.875	53,582
		1,175,771

Options covering 352,360 Ordinary Shares were exercisable at December 31, 1989 as follows: 228,150 shares at $16.813 per share; 113,426 shares at $19.875 per share; 10,784 shares at $27.250 per share.

A summary of option activity during 1989 is as follows:

	Number of Shares covered by Options
Outstanding at beginning of year	846,432
Granted	393,300
Exercised at $16.813 per share	(14,479)
Exercised at $19.875 per share	(24,159)
Exercised at $24.188 per share	(6,638)
Cancelled	(18,685)
Outstanding at end of year	1,175,771

21. Shareholder Protection Rights Plan

On December 5, 1989, the Board of Directors of the Corporation adopted a Shareholder Protection Rights Plan (the Rights Plan). The Rights Plan must be confirmed by holders of not less than a majority of the voting shares represented at the Corporation's annual meeting to be held on May 2, 1990. This confirmation is to come from shareholders other than anyone making a takeover bid or who had acquired 10% or more, and other than the Power Corporation Group (whose

rights under a standstill agreement to acquire up to 15% is allowed for by the Rights Plan). The rights issued to shareholders under the Rights Plan will entitle the holder, upon the occurrence of certain triggering events, to acquire equity interests in the Corporation at a 50% discount to the market.

With amendments to the Rights Plan adopted by the Board of Directors of the Corporation on March 12, 1990, to be effective on confirmation by the shareholders, triggering events include the acquisition of 15% or more of the Ordinary Shares alone, or of the Ordinary and Preference Shares together, in a transaction not approved by the Board of Directors of the Corporation. However, the rights are not triggered by certain permitted bids that are made to all holders of Ordinary Shares and which must be approved by a majority vote of independent shareholders.

Under the Rights Plan, one right is issued for each Ordinary Share. Holders of Preference Shares receive convertible rights which will be automatically converted into Ordinary Rights based on the value of the Preference Shares relative to the Ordinary Shares.

To implement the Rights Plan, the Board of Directors of the Corporation authorized the issue of the rights to shareholders of record at the close of business on December 5, 1989.

On March 9, 1990, Alexander Centre Industries Limited applied to the Supreme Court of Ontario for certain orders, including an order declaring the Rights Plan to be oppressive and in disregard of the interest of the Preference shareholders, an order restraining the Corporation from taking any action in connection with the Rights Plan and an order amending the Rights Plan so as to treat the Preference shareholders on an equal basis in relation to the Ordinary shareholders.

22. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense for such defined benefit plans includes the following components:

	1989	1988	1987
	(in millions)		
Service cost-benefits earned during the year	$ 47.1	$ 49.2	$ 42.2
Interest cost on projected benefit obligation	375.1	350.0	332.0
Actual return on pension fund assets	(570.0)	(434.6)	(434.1)
Net amortization and deferrals	216.7	116.2	148.0
Net pension expense	$ 68.9	$ 80.8	$ 88.1

The following table sets forth the plans' funded status and the amounts recognized in CP Limited's consolidated balance sheet as at December 31:

	1989		1988	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
	(in millions)			
Actuarial present value of benefit obligation:				
Vested	$ 4,389.0	$ 74.1	$ 4,025.4	$ 66.0
Non-vested	32.5	1.4	45.0	0.8
Accumulated benefit obligation	4,421.5	75.5	4,070.4	66.8
Effect of projected future salary increases	663.5	6.2	651.7	4.4
Projected benefit obligation (based on a weighted average discount rate of approximately 8% and salary increases ranging from 5% to 6%)	5,085.0	81.7	4,722.1	71.2
Pension fund assets at market related values	5,022.5	43.6	4,723.1	34.5
Pension fund assets in excess of (less than) projected benefit obligation	(62.5)	(38.1)	1.0	(36.7)
Unamortized portion of net obligation at January 1, 1987*	115.9	10.1	121.1	11.3
Unamortized prior service cost*	383.9	3.2	112.1	1.6
Unamortized net gain*	(363.1)	(4.7)	(195.8)	(6.9)
Prepaid (accrued) pension cost in consolidated balance sheet	$ 74.2	$ (29.5)	$ 38.4	$ (30.7)

*Being amortized over expected average remaining service life of employees, generally 15 years.

22. Pensions (cont'd)

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 8%.

CP Limited also has subsidiary-sponsored defined contribution plans. Pension expense for such plans, which generally equals the employer's required contribution, was $ 5.2 million, $5.8 million and $6.4 million in 1989, 1988 and 1987, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $8 million, $6 million and $7 million in 1989, 1988 and 1987, respectively.

23. Commitments

At December 31, 1989, commitments for capital expenditures amounted to $939.9 million and minimum payments under operating leases were estimated at $761.4 million in the aggregate, with annual payments in each of the five years following 1989 of:

1990 – $133.8 million; 1991 – $116.6 million;
1992 – $93.4 million; 1993 – $73.4 million;
1994 – $53.7 million.

At December 31, 1989, unused commitments for long term financing amounted to $2,453.2 million at interest rates varying with bank prime or money market rates, with commitment fees on $2,170.2 million ranging from .08% to .375%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $862.5 million on which interest rates vary with bank prime or money market rates.

24. Marathon Realty Company Limited

On December 5, 1989, the Board of Directors of the Corporation approved in principle a plan to distribute an 80% interest in its wholly-owned subsidiary, Marathon Realty Company Limited (Marathon), to the Corporation's Ordinary shareholders.

Under the plan, Marathon will become a publicly-traded company, with 80% ownership being held directly by the Corporation's Ordinary shareholders. The remaining 20% interest will be held by the Corporation. Certain holders of the Corporation's Preference Shares have alleged that they are entitled to participate in the plan. The Corporation does not believe that the terms of the Preference Shares provide for such participation. However, to the extent that the Preference shareholders were held to be entitled, the Corporation would make the additional distribution from its retained 20% interest in Marathon. Based on a maximum possible entitlement for each Preference Share equal to that of an Ordinary Share, the Corporation's retained interest would be approximately 3.3 percentage points lower.

The distribution under the plan is contingent upon shareholder and court approval, a favourable advance tax ruling, and other requisite consents. Shareholder approval will be sought at the Corporation's annual meeting to be held on May 2, 1990.

The Corporation's consolidated income from continuing operations on a pro-forma basis (unaudited) assuming the distribution had occurred on January 1, 1989, would have been as follows:

For the Year ended December 31, 1989	As Reported	Adjustments	Pro-Forma
	(in millions, except amounts per share)		
Revenues	$ 11,020.2	$ (471.4)	$ 10,548.8
Costs and expenses	9,544.6	(244.5)	9,300.1
Operating income	1,475.6	(226.9)	1,248.7
Interest expense	(510.4)	115.1	(395.3)
Non-operating income	122.0	—	122.0
Equity in income of associated companies	28.4	16.8	45.2
Income before income taxes and minority interest	1,115.6	(95.0)	1,020.6
Income taxes	351.5	(27.1)	324.4
Minority interest	99.5	(0.5)	99.0
Income from continuing operations	$ 664.6	$ (67.4)	$ 597.2
Earnings per Ordinary Share			
Income from continuing operations	$ 2.09	$ (0.21)	$ 1.88

The Corporation's condensed consolidated balance sheet on a pro-forma basis (unaudited) assuming the distribution had occurred on December 31, 1989 would have been as follows:

	As Reported	Adjustments (in millions)	Pro-Forma
Assets			
Current assets	$ 3,364.8	$ 46.7	$ 3,411.5
Investments	1,262.0	105.7	1,367.7
Properties	13,806.3	(2,241.5)	11,564.8
Other assets and deferred charges	615.2	(26.9)	588.3
	$ 19,048.3	$ (2,116.0)	$ 16,932.3
Liabilities and Shareholders' Equity			
Current liabilities	$ 3,078.4	$ (404.4)	$ 2,674.0
Long term debt	3,898.1	(1,212.5)	2,685.6
Deferred items	3,036.5	(210.8)	2,825.7
Minority shareholders' interest in subsidiary companies	1,238.8	(0.4)	1,238.4
Shareholders' equity	7,796.5	(287.9)	7,508.6
	$ 19,048.3	$ (2,116.0)	$ 16,932.3

Pro-forma adjustments reflect the distribution of 80% of the Corporation's investment in Marathon to the existing Ordinary shareholders of the Corporation and a change from the consolidation to the equity method of accounting for the 20% interest in Marathon retained by the Corporation.

25. Subsequent Event

On January 24, 1990 the Corporation announced that it had successfully completed its tender offer for all of the issued and outstanding shares of Soo Line Corporation it did not already own. As a result of the tender offer, the Corporation now owns 96% of the outstanding Soo Line shares. It is expected that the tender offer will be followed by a merger of a wholly-owned subsidiary of the Corporation with Soo Line, following which the shares not tendered under the offer will be acquired at the offer price.

Based on the offer price of U.S. $21.50 per share, the cost to the Corporation will be approximately U.S. $95 million.

The acquisition is not expected to have a significant effect on the Corporation's results of operations or financial position.

26. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1989.

27. Supplementary Data

The discussion of Canadian and United States Accounting Principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, the effect on the statement of changes in financial position and balance sheet not being significant.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate and Hotels business segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and U.S. GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost component of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under U.S. GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on CP Limited's pension expense is included in the table below. The impact of the difference on the funded status of CP Limited's plans is not material.

CP Rail, a division of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

Canadian and United States Accounting Principles (cont'd)

For the Year ended December 31	1989	1988	1987
	(in millions, except amounts per share)		
Operating income			
Canadian GAAP	$ 1,475.6	$ 1,725.4	$ 1,713.6
United States GAAP	1,470.3	1,692.4	1,736.1
Income from continuing operations			
Canadian GAAP	664.6	683.9	441.7
United States GAAP	687.7	747.1	526.7
Net income			
Canadian GAAP	745.2	820.1	826.3
United States GAAP	768.3	887.6	923.5
Earnings per Ordinary Share			
Income from continuing operations			
Canadian GAAP	2.09	2.21	1.47
United States GAAP	2.17	2.42	1.75
Net income			
Canadian GAAP	2.35	2.65	2.75
United States GAAP	2.42	2.87	3.07

The following is a reconciliation of net income under Canadian GAAP to net income under United States GAAP:

	1989	1988	1987
Net income – Canadian GAAP	$ 745.2	$ 820.1	$ 826.3
Increased or (decreased) by:			
Oil and gas	8.4	(6.2)	(2.5)
Real estate & hotels	(17.9)	(23.1)	(5.3)
Deferred income taxes	3.7	4.1	4.6
Foreign exchange	13.2	51.8	49.2
Pension costs	14.2	13.8	34.2
Interest during construction	1.5	27.1	17.0
Net income – United States GAAP	$ 768.3	$ 887.6	$ 923.5

The new U.S. standard on accounting for income taxes (SFAS 96), which was originally to be effective for fiscal years beginning after December 15, 1988, is now not effective until fiscal years beginning after December 15, 1991. While CP Limited has not completed its study of the effect that SFAS 96 will have on its financial position as determined following U.S. generally accepted accounting principles, it expects that adoption of the standard will reduce deferred taxes and increase net income in the year of adoption.

Quarterly Financial Information (Unaudited)	1989		1988	
	Canadian GAAP	United States GAAP	Canadian GAAP	United States GAAP
	(in millions)			
Operating income				
First quarter	$ 340.9	$ 344.1	$ 410.0	$ 393.9
Second quarter	348.4	347.4	496.0	494.8
Third quarter	354.8	352.2	453.8	455.3
Fourth quarter	431.5	426.6	365.6	348.4
	$ 1,475.6	$ 1,470.3	$ 1,725.4	$ 1,692.4
Income from continuing operations				
First quarter	$ 131.4	$ 144.3	$ 159.7	$ 183.1
Second quarter	131.6	132.1	209.1	235.2
Third quarter	213.4	218.0	170.7	181.3
Fourth quarter	188.2	193.3	144.4	147.5
	$ 664.6	$ 687.7	$ 683.9	$ 747.1
Net income				
First quarter	$ 134.1	$ 147.0	$ 183.9	$ 211.7
Second quarter	136.3	136.8	230.4	257.7
Third quarter	284.1	288.7	199.2	203.8
Fourth quarter	190.7	195.8	206.6	214.4
	$ 745.2	$ 768.3	$ 820.1	$ 887.6

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

	1989			
For the three months ended	March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Revenues				
Goods sold	$ 1,408.2	$ 1,477.3	$ 1,396.7	$ 1,598.3
Services	1,243.4	1,277.7	1,313.5	1,305.1
	2,651.6	2,755.0	2,710.2	2,903.4
Costs and Expenses				
Cost of goods sold	955.7	1,013.1	984.3	990.2
Cost of services	803.7	841.7	834.4	969.8
Selling, general and administrative	360.0	365.7	355.2	311.7
Depreciation, depletion and amortization	191.3	186.1	181.5	200.2
	2,310.7	2,406.6	2,355.4	2,471.9
Operating income	340.9	348.4	354.8	431.5
Interest expense	(112.3)	(127.9)	(139.9)	(130.3)
Non-operating income (expenses)	8.2	15.5	130.2	(31.9)
Equity in income of associated company	3.3	6.8	10.0	8.3
Income before income taxes and minority interest	240.1	242.8	355.1	277.6
Income taxes	82.3	79.9	107.4	81.9
Minority interest	26.4	31.3	34.3	7.5
Income from continuing operations	131.4	131.6	213.4	188.2
Discontinued operations	2.7	4.7	70.7	2.5
Net Income	$ 134.1	$ 136.3	$ 284.1	$ 190.7
Earnings per Ordinary Share				
Income from continuing operations	$ 0.41	$ 0.42	$ 0.67	$ 0.59
Net Income	$ 0.42	$ 0.43	$ 0.90	$ 0.60

Non-operating income for the three months ended September 30, 1989, includes a gain of $81.6 million from the sale of a 40% interest in the Corporation's wholly-owned CNCP Telecommunications division and a gain of $29.6 million from the sale by AMCA International Limited of its investment in a subsidiary company.

Non-operating income for the three months ended December 31, 1989, includes a $26.4 million provision for the loss on sale of the Kansas City line by Soo Line Corporation.

Discontinued operations for the three months ended September 30, 1989, include a $70.1 million gain from the sale of the Corporation's bulkship fleet and operations.

The Corporation's interim financial statements for the nine months ended September 30, 1989, reported third quarter income from discontinued operations of $73.4 million. Included in the $73.4 million was $2.7 million for Processed Minerals for which a decision to sell had been made in June 1989. However, negotiations with a potential buyer were terminated in December 1989 and, as a result, Processed Minerals has been reinstated as a continuing operation (see also Note 7).

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

For the three months ended	1988 March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Revenues				
Goods sold	$ 1,314.9	$ 1,447.3	$ 1,498.5	$ 1,448.0
Services	1,260.6	1,363.6	1,305.1	1,288.4
	2,575.5	2,810.9	2,803.6	2,736.4
Costs and Expenses				
Cost of goods sold	876.1	962.6	1,010.0	1,006.9
Cost of services	784.3	834.6	820.0	888.3
Selling, general and administrative	337.3	360.6	349.5	268.2
Depreciation, depletion and amortization	167.8	157.1	170.3	207.4
	2,165.5	2,314.9	2,349.8	2,370.8
Operating income	410.0	496.0	453.8	365.6
Interest expense	(104.3)	(97.2)	(96.7)	(117.6)
Non-operating income (expenses)	12.0	5.5	(49.8)	9.3
Equity in income of associated company	—	—	2.2	3.2
Income before income taxes and minority interest	317.7	404.3	309.5	260.5
Income taxes	137.6	163.9	103.8	81.2
Minority interest	20.4	31.3	35.0	34.9
Income from continuing operations	159.7	209.1	170.7	144.4
Discontinued operations	24.2	21.3	28.5	62.2
Net Income	$ 183.9	$ 230.4	$ 199.2	$ 206.6
Earnings per Ordinary Share				
Income from continuing operations	$ 0.53	$ 0.69	$ 0.54	$ 0.45
Net Income	$ 0.61	$ 0.76	$ 0.63	$ 0.65

Non-operating expenses for the three months ended September 30, 1988, include a $59.8 million write-down of assets and restructuring costs in respect of CP Telecommunications.

Discontinued operations for the three months ended September 30, 1988, include a loss of $26.4 million from the sale of the Corporation's investment in The Algoma Steel Corporation, Limited and a gain of $47 million from the sale of bulkship vessels.

Discontinued operations for the three months ended December 31, 1988, include a gain of $55.6 million from the sale of bulkship vessels.

(Dollars in millions, except amounts per share)	1989	1988	1987	1986
Revenues				
Continuing operations	$ 11,020.2	$ 10,926.4	$ 10,336.2	$ 10,650.7
Discontinued operations	$ 80.9	$ 1,125.3	$ 2,064.9	$ 4,630.7
Income from continuing operations				
Transportation and Waste Services	$ 110.1	$ 213.3	$ 218.3	$ 71.3
Energy	139.2	122.5	158.7	56.7
Forest Products	175.4	259.6	170.0	29.2
Real Estate and Hotels	160.8	102.3	10.2	73.3
Telecommunications and Manufacturing	79.1	(13.8)	(115.5)	(44.1)
	664.6	683.9	441.7	186.4
Discontinued operations	80.6	136.2	384.6	(266.7)
Net Income	$ 745.2	$ 820.1	$ 826.3	$ (80.3)
United States GAAP				
Income from continuing operations	$ 687.7	$ 747.1	$ 526.7	$ 244.6
Net Income	$ 768.3	$ 887.6	$ 923.5	$ (5.5)
Total assets	$ 19,048.3	$ 17,650.8	$ 18,000.7	$ 17,698.7
Total long term debt	$ 4,256.4	$ 3,836.0	$ 4,469.8	$ 5,114.7
Perpetual 4% Consolidated Debenture Stock	162.9	178.1	197.7	184.6
Minority shareholders' interest in subsidiary companies	1,238.8	1,073.4	1,139.0	1,344.7
Shareholders' equity	7,796.5	7,303.1	6,433.0	5,753.4
Total capitalization	$ 13,454.6	$ 12,390.6	$ 12,239.5	$ 12,397.4
Per Ordinary Share:				
Income from continuing operations				
Canadian GAAP	$ 2.09	$ 2.21	$ 1.47	$ 0.62
United States GAAP	$ 2.17	$ 2.42	$ 1.75	$ 0.82
Net Income				
Canadian GAAP	$ 2.35	$ 2.65	$ 2.75	$ (0.27)
United States GAAP	$ 2.42	$ 2.87	$ 3.07	$ (0.02)
Dividends	$ 0.84	$ 0.68	$ 0.54	$ 0.48
Number of Ordinary Shares (in millions)				
Actual	318.2	316.9	302.8	299.5
Average	317.3	309.1	300.5	298.3
Rate of return on average shareholders' equity	9.9%	11.9%	13.6%	(1.4%)
Debt:equity ratio	33:67	32:68	38:62	43:57

1985	1984	1983	1982	1981	1980
$ 10,465.4	$ 9,799.2	$ 8,531.2	$ 8,251.3	$ 7,474.0	$ 5,946.4
$ 4,852.2	$ 5,116.6	$ 4,517.0	$ 4,347.3	$ 5,156.2	$ 4,285.0
$ 136.4	$ 197.5	$ 158.5	$ 122.6	$ 144.6	$ 138.7
202.9	179.5	143.7	147.5	115.2	162.1
(16.8)	(7.0)	(69.4)	(68.7)	11.4	33.5
42.3	36.1	24.0	26.5	26.8	21.7
(7.5)	(25.2)	(14.2)	30.4	44.9	126.7
357.3	380.9	242.6	258.3	342.9	482.7
(104.6)	(14.7)	(113.6)	(76.7)	122.8	167.8
$ 252.7	$ 366.2	$ 129.0	$ 181.6	$ 465.7	$ 650.5
$ 336.0	$ 372.9	$ 204.9	$ 183.0	$ 349.9	$ 475.4
$ 230.9	$ 340.4	$ 90.3	$ 90.3	$ 475.2	$ 644.5
$ 21,331.5	$ 18,670.7	$ 17,486.4	$ 17,162.5	$ 16,220.5	$ 12,941.2
$ 6,683.5	$ 5,609.0	$ 5,536.4	$ 5,538.7	$ 4,647.6	$ 2,997.5
185.0	157.8	292.5	292.5	292.5	292.5
2,031.7	2,981.3	2,660.2	2,573.3	2,464.2	2,240.2
6,032.5	4,387.8	3,928.2	3,881.2	3,826.2	3,439.9
$ 14,932.7	$ 13,135.9	$ 12,417.3	$ 12,285.7	$ 11,230.5	$ 8,970.1
$ 1.62	$ 1.77	$ 1.12	$ 1.19	$ 1.59	$ 2.24
$ 1.52	$ 1.73	$ 0.95	$ 0.84	$ 1.62	$ 2.20
$ 1.14	$ 1.70	$ 0.59	$ 0.84	$ 2.16	$ 3.02
$ 1.04	$ 1.58	$ 0.41	$ 0.41	$ 2.20	$ 2.99
$ 0.48	$ 0.47	$ 0.47	$ 0.55	$ 0.63	$ 0.62
297.7	215.0	215.0	215.0	215.0	215.0
220.8	215.0	215.0	215.0	215.0	215.0
4.9%	8.8%	3.3%	4.7%	12.8%	20.5%
46:54	44:56	47:53	47:53	44:56	37:63

Geographic Distribution of Net Property Investment

at December 31, 1989	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ 348.8	3
Quebec	1,446.0	10
Ontario	2,760.0	20
Manitoba	266.2	2
Saskatchewan	640.9	5
Alberta	3,161.1	23
British Columbia	2,037.4	15
N.W.T., Yukon & Offshore	30.3	—
Transportation Equipment	1,135.1	8
	11,825.8	86
Outside Canada		
United States	1,899.9	14
Other	45.8	—
Ocean Ships	34.8	—
	1,980.5	14
Total	$ 13,806.3	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1989		1988		1989		1988	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**25¼**	**21½**	24⅞	20⅛	**21¼**	**18⅛**	19⅞	15⅞
Second Quarter	**24⅛**	**21⅜**	24⅞	20⅞	**20¼**	**18**	20⅛	16⅞
Third Quarter	**28⅝**	**22¼**	24	20	**24⅜**	**18¾**	19⅞	16⅛
Fourth Quarter	**27⅞**	**23⅝**	22⅛	19½	**23¾**	**20⅛**	18½	15⅞
Year	**28⅝**	**21⅜**	24⅞	19½	**24⅜**	**18**	20⅛	15⅞

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Deputy Secretary,
Canadian Pacific Limited
62-65 Trafalgar Square
London, England WC2N 5DY

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Eng. Stock Exchanges.

Share Holdings

The number of registered holdings of the voting shares of the Corporation at December 31, 1989 was 67,735.

The distribution by countries of total voting rights of the Ordinary and Preference Shares at that date was as follows:

Canada	69.13%
United States	27.90
United Kingdom	0.90
Other Countries	2.07
	100.00%

Dividend Reinvestment Plan

Eligible holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through reinvestment of cash dividends, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Investor Relations

Institutional investors, brokers, security analysts and others desiring financial information about Canadian Pacific should contact:

N. E. Wale
Vice-President Investor and Industry Relations
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Shareholder Relations

Shareholders having inquiries or wishing to obtain copies of the Corporation's non-consolidated (parent company) financial statements, Annual Information Form filed with Canadian Securities Commissions or Form 10-K filed with the United States Securities and Exchange Commission should write to:

D. J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.
President, University of Regina
Regina

* *Michel F. Bélanger*
Chairman of the Board
National Bank of Canada
Montreal

Robert W. Campbell
Former Chairman
Canadian Pacific Limited
Calgary

* *Michael G. DeGroote*
Chairman and Chief Executive Officer
Laidlaw Inc.
Burlington

M. James Fielding
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

† *T.M. Galt*
Director and Former Chairman
Sun Life Assurance Company of Canada, Toronto

A.S. Kingsmill, Q.C.
Partner, Law firm of McCarthy Tétrault, Toronto

*† *C. Merv Leitch, Q.C.*
Partner, Law firm of Macleod Dixon
Calgary

The Hon. Peter Lougheed, P.C., C.C., Q.C.
Partner, Law firm of Bennett Jones Verchere, Calgary

Angus A. MacNaughton
President
Genstar Investment Corporation
San Francisco

Stanley A. Milner
President and Chief Executive Officer
Chieftain International Inc.
Edmonton

William D. Mulholland
Director and Former Chairman and Chief Executive Officer
Bank of Montreal, Toronto

* *Paul L. Paré, O.C.*
Director and Former Chairman
Imasco Limited, Montreal

*† *Claude Pratte, Q.C.*
Counsel, Law firm of Stein, Monast, Pratte & Marseille, Quebec

*† *C. Douglas Reekie*
Vice-Chairman of the Board
CAE Industries Ltd., Toronto

Thomas G. Rust, C.M.
Chairman
Canada Harbour Place Corporation
Vancouver

* *I.B. Scott*
Executive Vice-President, Canadian Pacific Limited and Chairman, President and Chief Executive Officer, CP Rail
Montreal

R.D. Southern
Deputy Chairman, President and Chief Executive Officer, ATCO Ltd.
Calgary

* *W.W. Stinson*
Chairman, President and Chief Executive Officer
Canadian Pacific Limited
Montreal

Allan R. Taylor
Chairman and Chief Executive Officer
Royal Bank of Canada
Toronto

The Rt. Hon. The Viscount Weir
Chairman
The Weir Group PLC
Glasgow, Scotland

* Member of the Executive Committee
† Member of the Audit Committee

Officers

W.W. Stinson
Chairman, President and Chief Executive Officer
Montreal

R.K. Gamey
Executive Vice-President, Toronto

J.F. Hankinson
Executive Vice-President, Toronto

G.F. Michals
Executive Vice-President and Chief Financial Officer, Montreal

I.B. Scott
Executive Vice-President
Montreal

K.S. Benson
Vice-President Personnel and Administration, Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

W.R. Fatt
Vice-President and Treasurer
Toronto

C.R.O. Munro, Q.C.
Vice-President Law and General Counsel, Montreal

H.M. Romoff
Vice-President – Europe, London

J. Thomson
Vice-President and Comptroller
Montreal

N.E. Wale
Vice-President Investor and Industry Relations, Montreal

Directorate

At the Annual Meeting of Shareholders held on May 3, 1989, Mr. F. S. Burbidge, O.C., Mr. Allard Jiskoot and Mr. Donald C. Matthews retired as directors of the Corporation. Mr. Burbidge's retirement marked the completion of a distinguished forty-two year career with the Corporation during which he rendered outstanding service and leadership on the Board and the Executive Committee and as the most senior executive officer of the Corporation. Mr. Jiskoot had been a director since 1964 and Mr. Matthews had been a director since 1975.

The directors desire to record their recognition of the notable contributions to the affairs of the Corporation made by these retiring members. On May 3, 1989, Mr. I. B. Scott and The Rt. Hon. The Viscount Weir were elected to the Board of Directors. Mrs. Jean Casselman Wadds, O.C., resigned as a director for personal reasons, effective December 31, 1989.

A copy of the 1989 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown below:

Laidlaw Inc.
3221 North Service Road
P.O. Box 5028
Burlington, Ontario
L7R 3Y8

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Canadian Pacific Forest Products Limited
1155 Metcalfe Street
Montreal, Quebec
H3B 2X1

Marathon Realty Company Limited
Suite 1100, Citibank Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Canadian Pacific Hotels Corporation
One University Avenue
Suite 1400
Toronto, Ontario
M5J 2P1

AMCA International Limited
2300 – One First Union Centre
301 South College Street
Charlotte, NC 28202-6039

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal (Québec) Canada H3C 3E4.

Legal deposit, 1st quarter (1990)
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